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Checklists and illustrative financial statements for defined contribution pension plans : a financial accounting and reporting practice aid, August 1999 edition

American Institute of Certified Public Accountants. Accounting and Auditing Publications

Linda Delahanty

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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

AUGUST 1999 EDITION

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AND ILLUSTRATIVE
FINANCIAL STATEMENTS
FOR DEFINED
CONTRIBUTION
PENSION PLANS**

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Reporting Practice Aid*

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CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR DEFINED CONTRIBUTION PENSION PLANS

*A Financial Accounting and
Reporting Practice Aid*

Edited by

Linda Delahanty, CPA

Technical Manager, Accounting and Auditing Publications

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for Defined Contribution Pension Plans* has not been
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FSP Section 8000

Checklists and Illustrative Financial Statements for Defined Contribution Pension Plans

Description

.01 Employee benefit plans include defined benefit pension plans, defined contribution retirement plans, and health and welfare benefit plans (both defined benefit and defined contribution). Defined contribution retirement plans provide an individual account for each participant and provide benefits that are based on (a) amounts contributed to the participant's account by the employer or employee, (b) investment experience, and (c) any forfeitures allocated to the account, less any administrative expenses charged to the plan. These plans include profit-sharing plans, money purchase pension plans, stock bonus and employee stock ownership plans (ESOPs), thrift or savings plans including 401(k) arrangements, and certain target benefit plans.

.02 Defined contribution retirement plans may be single employer plans or multiemployer plans. In addition, these plans may be funded through accumulated contributions and investment income (self-funded plans), insurance contracts (insured plans), or a combination of both (split-funded plans). In the context of this checklist, reference to defined contribution plans refers to defined contribution retirement plans only and does not include health and welfare benefit plans (see the separate publication, *Checklist and Illustrative Financial Statements for Health and Welfare Benefit Plans*, that includes both defined benefit and defined contribution health and welfare benefit plans).

Regulatory Requirements

.03 The Employee Retirement Income Security Act of 1974 (ERISA) provides for substantial federal government oversight of the operating and reporting practices of employee benefit plans. Under ERISA, the Department of Labor (DOL) and the Internal Revenue Service (IRS) have the authority to issue regulations covering reporting and disclosure requirements. (Appendix A of the Audit and Accounting Guide *Audits of Employee Benefit Plans* describes which plans are covered by ERISA.)

.04 ERISA generally requires that the administrator of an employee benefit plan prepare and file various documents with the DOL and the IRS. The annual report to be filed for employee benefit plans generally is the Form 5500 Series. The Form 5500, a joint-agency form developed by the IRS, the DOL, and the PBGC (Pension Benefit Guaranty Corporation), may be used to satisfy the annual reporting requirements of the Internal Revenue Code (IRC) and Titles I and IV of ERISA.

.05 Some defined contribution plans are required to register and report to the Securities and Exchange Commission (SEC). When securities are registered (typically on Form S-8) to be offered to employees pursuant to any employee benefit plan, the plan is required to file annual reports to the SEC on Form 11-K. Regulation S-X prescribes the form of the statements of financial position and statements of income and changes in plan equity that those plans must file with the SEC. The SEC has amended its rules for Form 11-K to permit plans subject to ERISA to file financial statements in accordance with ERISA rather than Regulation S-X. It is important to note however that "limited scope" audits or financial statements prepared on an "Other Comprehensive Basis of Accounting" (OCBOA), such as the modified cash basis, which are generally accept-

able under ERISA regulations, are not considered acceptable for SEC filings. In addition, financial statements in accordance with ERISA included in an 11-K filing are due within 180 days after the plan's fiscal year; an 11-K filing which includes financial statements under Regulation S-X are due within 90 days after the plan's fiscal year.

Financial Accounting and Reporting Standards

.06 The AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans* describes generally accepted accounting principles for accounting and financial reporting for defined contribution plans. Except for certain differences in determining plan benefits, defined contribution plans are similar to defined benefit pension plans and accordingly, the guidance is consistent with the accounting and reporting standards in FASB Statement of Financial Accounting Standards (SFAS) No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*, as amended by SFAS No. 110, *Reporting by Defined Benefit Pension Plans of Investment Contracts*. SFAS No. 35, as amended, establishes generally accepted accounting principles for defined benefit pension plans.

.07 The AICPA Statement of Position (SOP) 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans*, specifies the accounting and reporting for defined contribution plan investment contracts.

Accounting and Reporting by Defined Contribution Retirement Plans

.08 Defined contribution plan financial statements intended to be presented in accordance with generally accepted accounting principles should be prepared on the accrual basis and should include the following:

- A statement of net assets available for benefits as of the end of the plan year. (ERISA requires that this statement be presented in comparative form.)
- A statement of changes in net assets available for benefits for the year then ended.

.09 Except as noted in the following paragraph, plan investments are generally presented at their fair value at the reporting date and assets used in plan operations are presented at cost less accumulated depreciation or amortization.

.10 Defined contribution plans should report fully-benefit responsive investment contracts at contract value, which may or may not be equal to fair value, and other investment contracts at fair value. If, however, plan management is aware that an event has occurred that may affect the value of the contract (for example, a decline in the creditworthiness of the contract issuer) pursuant to SFAS No. 5, *Accounting for Contingencies*, disclosure of the event or reporting the investment at less than contract value may be appropriate.

.11 In addition to the reporting requirements of SFAS No. 35, as amended, and the AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans*, defined contribution plans may have reporting requirements under ERISA. Schedules required by ERISA include the following:

- Line 27a—Schedule of Assets Held for Investment Purposes
- Line 27b—Schedule of Loans or Fixed Income Obligations
- Line 27c—Schedule of Leases in Default or Classified as Uncollectible
- Line 27d—Schedule of Reportable Transactions
- Line 27e—Schedule of Nonexempt Transactions

- Line 27f—Schedule of Nonexempt Transactions

Please refer to the Instructions to Form 5500 for schedule requirements.

Note: This publication was extracted from sections 8000 through 8400 of the AICPA *Financial Statement Preparation Manual* (FSP).

FSP Section 8100

Instructions

General

.01 This publication includes:

- **Financial Statements and Notes Checklist**—For use by preparers of defined contribution pension plan financial statements and by practitioners who audit them as they evaluate the adequacy of disclosures.
- **Auditors' Report Checklist**—For use by auditors in reporting on audited defined contribution pension plan financial statements.
- **Illustrative Financial Statements and Auditor's Reports**—Illustrating full sets of defined contribution pension plan financial statements.

.02 The checklists and illustrative financial statements included in this section have been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as nonauthoritative practice aids to be used as a memory jogger to aid in the audit of financial statements of defined contribution retirement plans. In the context of this checklist, reference to defined contribution plans refers to defined contribution retirement plans only and does not include health and welfare benefit plans (see the separate publication, *Checklist and Illustrative Financial Statement for Health and Welfare Benefit Plans*, that includes both defined benefit and defined contribution health and welfare benefit plans).

The checklists have been updated to include guidance relevant to employee benefit plans contained in official pronouncements issued through:

- FASB Statement of Financial Accounting Standards No. 134, *Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Enterprise*
- FASB Interpretation No. 42, *Accounting for Transfers of Assets in Which a Not-for-Profit Organization Is Granted Variance Power*
- FASB Technical Bulletin No. 97-1, *Accounting Under Statement 123 for Certain Employee Stock Purchase Plans with a Look-Back Option*
- AICPA Statement on Auditing Standards No. 87, *Restricting the Use of an Auditor's Report*
- AICPA Statement of Position 98-9, *Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions*
- AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans* (with conforming changes as of May 1, 1999)
- AICPA Practice Bulletin No. 15, *Accounting by the Issuer of Surplus Notes*
- EITF consensuses adopted through the February 1999 Emerging Issues Task Force (EITF) meeting

The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.

Instructions

.03 The checklists consist of a number of questions or statements that are accompanied by references to the applicable authoritative pronouncements. The checklists provide for checking off or initialing each question or point to show that it has been considered. Users should check: "yes" if the disclosure has been appropriately made, "no" if the disclosure has not been made, or "n/a" if the disclosure is not applicable to the engagement. The auditor should consider the effect of a "no" answer on his/her report. A "no" answer that is material to the financial statements may warrant a departure from an unqualified opinion (see paragraphs 20–63 of SAS No. 58, *Reports on Audited Financial Statements*, as amended [AICPA, *Professional Standards*, vol. 1, AU sec. 508.20–63]). If a "no" answer is checked, the authors recommend that a note be made in the right margin to explain why the disclosure was not made (for example, if the disclosure was not made because it was not material to the financial statements, write "not material" in the right margin). The right margin may be used for other remarks or comments as appropriate, including cross-referencing to applicable workpapers where the support to a disclosure may be found. Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.

.04 The checklist is not a substitute for the authoritative pronouncements. Users of the checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated nor do they represent minimum requirements. Pronouncements deemed remote for defined contribution retirement plans are not included in this document. The checklists and illustrative financial statements are "tools" and in no way represent official positions or pronouncements of the AICPA.

.05 If you have further questions, call the AICPA Technical Hotline at 1-888-777-7077.

FSP Section 8200

Financial Statements and Notes Checklist

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid.

.02 Explanation of References:

AAG =	AICPA Audit and Accounting Guide <i>Audits of Employee Benefit Plans</i> —with conforming changes as of May 1, 1998
SFAS =	FASB Statement of Financial Accounting Standards
FASBI =	FASB Interpretation
APB =	Accounting Principles Board Opinion
ARB =	Accounting Research Bulletin
AC =	Reference to section number in <i>FASB Accounting Standards—Current Text</i>
SAS =	AICPA Statement on Auditing Standards
AU =	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1)
SOP =	AICPA Statement of Position
EITF =	Emerging Issues Task Force consensuses
PB =	AcSEC Practice Bulletin
CFR =	Code of Federal Regulations
DOL =	Department of Labor
ERISA =	Employee Retirement Income Security Act of 1974
PBGC =	Pension Benefit Guaranty Corporation

.03 Checklist Questionnaire:

This financial statement disclosure checklist is organized into the sections listed below. Carefully review the topics listed and consider whether they represent potential disclosure items for the plan. Place a check mark by the topics or sections considered not applicable; these sections need not be completed. For example, if the plan has not or is not being terminated, place a check by Other Financial Statement Disclosures, Section I, "Plan Terminations," and skip this section when completing the checklist.

*Place ✓ by
Sections Not Applicable*

- General
 - A. Titles and References _____
 - B. Comparative Financial Statements _____
- Statement of Net Assets Available for Benefits
 - A. General _____
 - B. Classification of Investments _____
 - C. Investment and Insurance Contracts _____

*Place ✓ by
Sections Not Applicable*

- | | |
|--|-------|
| D. Operating Assets | _____ |
| E. Contributions Receivable and Uncollectible Amounts | _____ |
| F. Cash | _____ |
| G. Liabilities | _____ |
| H. Derivative Instruments and Hedging Activities | _____ |
| | |
| • Statement of Changes in Net Assets Available for Benefits | |
| A. General | _____ |
| B. Contributions | _____ |
| C. Investment Earnings | _____ |
| D. Transfer of Assets To or From Other Plans | _____ |
| | |
| • Summary of Significant Accounting Policies | |
| A. Accounting Policies | _____ |
| B. Certain Significant Estimates | _____ |
| | |
| • Other Financial Statement Disclosures | |
| A. Changes in Accounting | _____ |
| B. Commitments and Contingencies | _____ |
| C. Current Vulnerabilities Due to Certain Concentrations | _____ |
| D. Derivatives | _____ |
| E. Description of Defined Contribution Plan | _____ |
| F. Description of Plan Amendments | _____ |
| G. Financial Instruments | _____ |
| H. Income Tax Status | _____ |
| I. Plan Terminations | _____ |
| J. Related-Party Transactions | _____ |
| K. Subsequent Events | _____ |
| L. Other Matters | _____ |
| | |
| • ERISA Reporting Requirements | |
| A. Form 5500 Series Report | _____ |
| B. Financial Statement Disclosures Required Under the Alternative
Method of Compliance for Pension Plans Pursuant to DOL Regula-
tions Section CFR 2520.103 and Section 103 of ERISA | _____ |
| C. Required Financial Statements and Supporting Schedules | _____ |
| | |
| • Auditors' Report Checklist | _____ |
| | |
| • Illustrative Financial Statements | |

Yes No N/A

General

A. Titles and References¹

1. For a full presentation in conformity with generally accepted accounting principles (GAAP), are the following financial statements presented:

¹ Some defined contribution plans are required to register and report to the Securities Exchange Commission (SEC). The SEC has amended its rules on Form 11-K to permit plans subject to ERISA to file financial statements in accordance with ERISA rather than in accordance with Regulation S-X. Please refer to the instructions to Form 11-K for additional information.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. A "Statement of Net Assets Available for Benefits" as of the end of plan year? (ERISA requires that this statement be presented in comparative form.)	_____	_____	_____
b. A "Statement of Changes in Net Assets Available for Benefits" for the year then ended? [AAG, par. 3.10]	_____	_____	_____
c. If the plan provides for a participant-directed investment program:			
(1) A "Statement of Net Assets Available for Benefits With Fund Information" as of the end of the plan year?	_____	_____	_____
(2) A "Statement of Changes in Net Assets Available for Benefits with Fund Information" for the year then ended?	_____	_____	_____

Practice Tip

The information in Step 1.c. above can be alternatively presented in a multicolumnar format on the face of the financial statements, in the notes to the financial statements, or in separate financial statements for each investment fund option.

[AAG, par. 3.28k; AAG, App. J; PB 12]

2. Is each financial statement suitably titled? [SAS 62, par. 7 (AU 623.07)]	_____	_____	_____
3. Does each statement include a reference to the notes, which are an integral part of the financial statements? [Generally Accepted]	_____	_____	_____
4. Do the plan financial statements include information about the plan resources and how the stewardship responsibility for those resources has been discharged, the results of transactions and events that affect the information about those resources, and other factors necessary for users and participants to understand the information provided? [AAG, par. 3.09]	_____	_____	_____

B. Comparative Financial Statements

1. Are comparative statements presented, if appropriate? ² [ARB 43, Ch. 2A, pars. 1 and 2 (AC F43.101 and .102)]	_____	_____	_____
2. Are the notes and other disclosures included in the financial statements of the prior years presented, repeated, or at least referred to, to the extent that they continue to be of significance? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	_____	_____	_____
3. If changes occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed? [ARB 43, Ch. 2A, par. 3 (AC F43.103)]	_____	_____	_____

Statement of Net Assets Available for Benefits

A. General

1. Is the information in the "Statement of Net Assets Available for Benefits" presented in such reasonable detail as is necessary to identify the plan's resources that are available for benefits? [SFAS 35, par. 9 (AC Pe5.108)]	_____	_____	_____
---	-------	-------	-------

² ERISA requires that the "Statement of Net Assets Available for Benefits" be presented in comparative form. [AAG, par. 3.10, fn. 8]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
B. Classification of Investments			
1. Are the plan's investments presented in enough detail to identify the types of investments and whether reported fair values have been measured by quoted prices in an active market or otherwise determined? [AAG, par. 3.20]	_____	_____	_____
2. Are the following investments reported as separate line items in the "Statement of Net Assets Available for Benefits":			
a. Government securities?	_____	_____	_____
b. Short-term securities?	_____	_____	_____
c. Corporate bonds?	_____	_____	_____
d. Common stocks?	_____	_____	_____
e. Preferred stocks?	_____	_____	_____
f. Mortgages?	_____	_____	_____
g. Loans to participants?	_____	_____	_____
h. Real estate?	_____	_____	_____
i. Investments in bank common and commingled trust funds?	_____	_____	_____
j. Master trust?	_____	_____	_____
k. Investments in contracts with insurance companies, including separate accounts, deposit administration (DA) and immediate participation guarantee (IPG) contracts? [AAG, par. 3.20]	_____	_____	_____
3. Are investments that represent 5 percent or more of the plan's net assets available for benefits separately identified in the financial statements or notes thereto? [AAG, par. 3.28g]	_____	_____	_____

Practice Tip

Listing all investments in the "Schedule of Assets Held for Investment Purposes" required by ERISA does not eliminate the requirement to include this disclosure in the financial statements.
[AAG, par. 3.28g]

4. Do disclosures include the investments of a master trust detailed by general type, such as government securities, short-term securities, corporate bonds, common stocks, mortgages, and real estate, as of the date of each "Statement of Net Assets Available for Benefits" presented? [AAG, par. 3.33]	_____	_____	_____
5. Do disclosures include a description of the basis used to allocate net assets, net investment income, gains and losses to participating plans, and the plan's percentage interest in a master trust as of the date of each "Statement of Net Assets Available for Benefits"? [AAG, par. 3.33]	_____	_____	_____
6. Do disclosures include investments pledged to secure debt of the plan as well as a description of the provisions regarding the release of such investments from the pledge and the amounts of investments released from the pledge in the last period? [AAG, par. 3.28i]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
7. If the plan provides for participant-directed ³ separate investment fund options, do the disclosures include:			
a. Information about the net assets and significant components of the changes in net assets for each investment fund option?	_____	_____	_____
b. Separate disclosure of participant-directed and non participant-directed portions?	_____	_____	_____
c. If investment fund options are aggregated, that fact should be disclosed? ⁴ [AAG, par. 3.28k; PB 12]	_____	_____	_____
C. Investment and Insurance Contracts			
1. Are fully benefit-responsive investment contracts reported at contract value, which may or may not be equal to fair value, and all other investment contracts at fair value? [SOP 94-4, par. 4; AAG, par. 3.17]	_____	_____	_____
2. If management is aware that an event has occurred that may affect the value of the fully benefit-responsive contract, pursuant to SFAS 5, <i>Accounting for Contingencies</i> , is the event disclosed or is the investment reported at less than contract value? [AAG, par. 3.17]	_____	_____	_____

Practice Tip

A fully benefit-responsive investment contract provides a liquidity guarantee by a financially responsible third party of principal and previously accrued interest for transactions initiated by plan participants under the terms of the ongoing plan.
[SOP 94-4, par. 10]

3. Are insurance contracts, as defined by SFAS 60, <i>Accounting and Reporting by Insurance Enterprises</i> , presented in the same manner required by ERISA annual reporting requirements of DOL Forms 5500-5500 C/R, that is either at fair value or at amounts determined by the insurance enterprise (contract value)? [SOP 94-4, par. 17b; AAG, par. 3.13]	_____	_____	_____
4. Are the following disclosed, in the aggregate by investment option, for fully benefit-responsive investment contracts:			
a. The average yield for each period for which a statement of net assets available for benefits is presented?	_____	_____	_____
b. The crediting interest rate as of the date of each statement of net assets available for benefits presented?	_____	_____	_____
c. The amount of valuation reserves recorded to adjust contract amounts (for example, due to problems with the credit worthiness of the contract issuer or third-party guarantor)?	_____	_____	_____

³ A plan provides for participant-directed investment programs if it allows participants to choose among various investment alternatives.

⁴ Aggregation of investment fund options with similar investment objectives is not appropriate (except for materiality considerations). Any individual investment fund option with net assets of less than 5 percent of the plan's total net assets may be combined with funds having similar investment objectives. However, if the plan provides for self-directed investing whereby each participant selects his or her own specific investments, changes in these investments may be aggregated and presented in one column as one fund option.
[AAG, par. 3.28k]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. The fair value of investment contracts reported at contract value, in accordance with SFAS 107, <i>Disclosures about Fair Value of Financial Instruments</i> , as amended by SFAS 126? [SOP 94-4, pars. 15 and 17g; AAG, par. 3.28p]	_____	_____	_____
5. Do disclosures include a general description of the basis and frequency of determining crediting interest rate resets and any minimum crediting interest rate under the terms of fully benefit-responsive investment contracts and any limitations on related liquidity guarantees (for example, premature termination of the contracts by the plan, plant closings, layoffs, plan termination, bankruptcy, mergers, and early retirement incentives)? [SOP 94-4, pars. 15 and 17g; AAG, par. 3.28q]	_____	_____	_____
6. For ERISA-covered plans, is an explanation provided for differences between amounts reported in the financial statements and DOL Form 5500, if a fully benefit-responsive investment contract does not qualify for contract-value reporting in the DOL Form 5500, but is reported in the financial statements at contract value, and the contract value does not approximate fair value? [SOP 94-4, pars. 16 and 17g; AAG, par. 3.28r]	_____	_____	_____
D. Operating Assets			
1. For depreciable assets, do the financial statements include disclosure of:			
a. Depreciation expense for each period?	_____	_____	_____
b. Balances of major classes of depreciable assets by nature or function?	_____	_____	_____
c. Accumulated depreciation, either by major classes of assets or in total?	_____	_____	_____
d. The method or methods used in computing depreciation for each major class of depreciable assets? [APB 12, par. 5a-d (AC D40.105a-d)]	_____	_____	_____
2. If an impairment loss is recognized for assets to be held and used, or for assets to be disposed of, are disclosures made in accordance with SFAS 121, <i>Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of</i> , paragraphs 13, 14, and 19? ⁵	_____	_____	_____
E. Contributions Receivable and Uncollectible Amounts			
1. Are the following contributions receivable separately identified:			
a. Receivables from employer(s)?	_____	_____	_____
b. Receivables from participants?	_____	_____	_____
c. Other sources of funding pursuant to formal commitments as well as legal or contractual requirements? [AAG, par. 3.21]	_____	_____	_____

⁵ SFAS 121 establishes accounting standards for the impairment of long-lived assets to be held and used and assets to be disposed of. SFAS 121 requires that long-lived assets to be held and used by the plan be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The required disclosures of SFAS 121 have not been included in the checklist due to the determination that many of the disclosure requirements would not be applicable to defined-contribution plans however if the plan recognizes an impairment of long-lived assets please refer to SFAS 121, paragraphs 13, 14, 18, and 19 for the disclosure requirements.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Do contributions receivable include an allowance for uncollectible amounts? [AAG, par. 3.21]	_____	_____	_____
F. Cash			
1. Is separate disclosure made of restricted cash? [ARB 43, Ch. 3A, par. 6 (AC B05.107)]	_____	_____	_____
G. Liabilities			
1. Are liabilities (other than for benefits) deducted in arriving at net assets available for plan benefits? [AAG, par. 3.24]	_____	_____	_____

Practice Tip

Amounts allocated to accounts of persons who have elected to withdraw from the plan but have not yet been paid should not be reflected as liabilities? [AAG, pars. 3.24 and 3.28*m*]

2. Consider stating separately:			
a. Due to broker for securities purchased?	_____	_____	_____
b. Accounts payable?	_____	_____	_____
c. Accrued expenses? [AAG, par. 3.24, and App. E, Exhibits E-1 and E-6]	_____	_____	_____
3. Do disclosures include guarantees by others of debt of the plan? [AAG, par. 3.28 <i>j</i>]	_____	_____	_____

Statement of Changes in Net Assets Available for Benefits

A. General

1. Does the "Statement of Changes in Net Assets Available for Benefits" (or the notes to the financial statements) present the net appreciation (depreciation) in the fair value of each significant type of investment, segregated between investments whose fair values have been measured by quoted market prices in an active market and those whose fair values have been otherwise determined? [AAG, par. 3.25]	_____	_____	_____
2. At a minimum, does the "Statement of Changes in Net Assets Available for Benefits" disclose:			
a. Investment income (exclusive of changes in fair value)?	_____	_____	_____
b. Contributions from employer(s), segregated between cash and noncash contributions?	_____	_____	_____
c. Contributions from participants, including those transmitted by the sponsor?	_____	_____	_____
d. Contributions from other sources (e.g., state subsidies or federal grants)?	_____	_____	_____
e. Benefits paid to participants?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
f. Payments to insurance companies to purchase contracts that are excluded from plan assets?	_____	_____	_____
g. Administrative expenses?	_____	_____	_____
h. Other changes? (For example, transfers of assets to or from other plans, if significant.) [AAG, pars. 3.25 and 3.26]	_____	_____	_____
B. Contributions			
1. Is the nature of noncash contributions described, either parenthetically or in a footnote? [AAG, par. 3.25c]	_____	_____	_____
C. Investment Earnings			
1. Does the net appreciation (depreciation) in the fair value of investments (see Step A.1. above) include realized gains and losses on investments that were both bought and sold during the year? [AAG, par. 3.25, fn. 10]	_____	_____	_____
2. Is the net change in the fair value of each significant type of investment of a master trust and total investment income of the master trust by type (e.g., interest, dividends, etc.) disclosed for each period for which a "Statement of Changes in Net Assets Available for Benefits" is presented? [AAG, par. 3.33]	_____	_____	_____
D. Transfer of Assets To or From Other Plans			
1. If there are other changes, such as significant transfer of assets to or from other plans, are they disclosed? [AAG, par. 3.26]	_____	_____	_____

Summary of Significant Accounting Policies

A. Accounting Policies

1. Is a description of all significant accounting policies presented in a separate "summary of significant accounting policies" preceding the notes to the financial statements or as an initial note? [APB 22, pars. 8 and 15 (AC A10.102 and 108)]	_____	_____	_____
2. Does the disclosure of significant accounting policies identify and describe all significant accounting principles followed by the reporting entity and the methods of applying those principles that materially affect the determination of financial position and results of operations, including instances in which there:			
a. Is a selection from existing acceptable alternatives?	_____	_____	_____
b. Are principles and methods peculiar to the industry in which the reporting entity operates, even if such principles and methods are predominantly followed in that industry?	_____	_____	_____
c. Are unusual or innovative applications of GAAP? [APB 22, par. 12 (AC A10.105)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes thereto) so duplication of details is avoided? [APB 22, par. 14 (AC A10.107)]	_____	_____	_____
4. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management's estimates included? [SOP 94-6, par. 11]	_____	_____	_____
5. Does the disclosure of the significant accounting policies include a description of the methods and significant assumptions used to determine the fair value of investments and the reported value of insurance contracts? [AAG, par. 3.27]	_____	_____	_____
6. Does the disclosure of the significant accounting policies include the policy regarding the purchase of contracts with insurance companies that are excluded from plan assets? [AAG, par. 3.28e]	_____	_____	_____

B. Certain Significant Estimates

1. If known information available before the financial statements are issued indicates that: (a) it is at least reasonably possible that the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events, and (b) the effect of the change would be material to the financial statements:			
a. Is disclosure made of the nature of the uncertainty, including an indication that it is at least reasonably possible that a change in the estimate will occur in the near term?	_____	_____	_____
b. If the estimate involves a loss contingency covered by SFAS 5, does the disclosure include an estimate of the possible range of loss, or state that such an estimate cannot be made?	_____	_____	_____
c. Does the disclosure describe the factors that cause the estimate to be sensitive to change? [SOP 94-6, pars. 13 and 14]	_____	_____	_____

Other Financial Statement Disclosures

A. Changes in Accounting

1. For all changes in accounting principles, are disclosures made in the year of change as to the:			
a. Nature of the change?	_____	_____	_____
b. Justification for the change, including a clear explanation of why the newly adopted principle is preferable?	_____	_____	_____
c. Effect on net additions (deductions) to the plan's net assets? [APB 20, pars. 17 and 19 (AC A06.113 and .115)]	_____	_____	_____
2. For those changes in accounting principles requiring disclosure of cumulative effect and pro forma amounts, are such disclosures made? If it is not possible to determine such effect, is the reason for not reporting the cumulative effect of the change or the pro forma amounts of prior years disclosed? [APB 20, pars. 19-22 and 25 (AC A06.115-.118 and .121)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Is the correction of an error shown as a prior-period adjustment with disclosure of the following in the period of its discovery and correction?	_____	_____	_____
a. Nature of the error in previously issued financial statements?	_____	_____	_____
b. Effect of its correction on the changes in the net assets available for benefits? [APB 20, par. 37 (AC A35.105)]	_____	_____	_____
4. For changes in accounting estimates:			
a. If a change in an accounting estimate affects several future periods, is its effect on the change in net assets available for benefits of the current period disclosed? [APB 20, par. 33 (AC A06.132)]	_____	_____	_____
b. If a change in an accounting estimate has no material effect in the period of change but is reasonably certain to materially affect later periods, is the change disclosed in the financial statements of the period of change? [APB 20, par. 38 (AC A06.133)]	_____	_____	_____
5. For a change in reporting entity, such as a merger of two or more plans, are transferred assets reported as a separate line item in the "Statement of Changes in Net Assets," and is the nature of the change and the reason for it disclosed? [APB 20, pars. 34 and 35 (AC A35.112 and .113)]	_____	_____	_____
B. Commitments and Contingencies			
1. Are the nature and amount of accrued loss contingencies, including those related to litigation, claims, and assessments, disclosed as necessary to keep the financial statements from being misleading? [SFAS 5, pars. 9 and 34 (AC C59.108 and .140)]	_____	_____	_____
2. For loss contingencies not accrued, when there is at least a reasonable possibility that a loss may have been incurred or an exposure to loss exists in excess of the amount accrued for a loss contingency, including those related to litigation, claims, and assessments, do disclosures indicate:			
a. Nature of the contingency?	_____	_____	_____
b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made? [SFAS 5, pars. 10 and 33–39 (AC C59.109 and .139–.145)]	_____	_____	_____
3. Are the nature and amount of guarantees (e.g., guarantees of indebtedness of others) disclosed even though the possibility of loss may be remote? [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 1–3 (AC C59.114); EITF 85-20]	_____	_____	_____
C. Current Vulnerability Due to Certain Concentrations			
1. Is disclosure including information that is adequate to inform users of the general nature of the risk associated with concentrations in the volume of business transacted with a particular customer, supplier, lender, grantor, or contributor; in revenue from particular products, services, or fund-raising events; in the available sources of supply of materials, labor, or services, or licenses or other rights used in the reporting entity's operations; or in the market or geographic area in			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
which the reporting entity conducts its operations made if, based on information known to management before the financial statements are issued, (a) the concentration existed at the date of the financial statements, (b) made the enterprise vulnerable to the risk of a near-term severe impact, and (c) it is at least reasonably possible that the events that could cause the severe impact will occur in the near term? [SOP 94-6, pars. 21 and 22]	_____	_____	_____

D. Derivatives⁶

- | | | | |
|---|-------|-------|-------|
| 1. If the plan has derivative financial instruments, and has not yet adopted SFAS 133, are the required disclosures of SFAS 119, <i>Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments</i> , made?
[SFAS 119, pars. 8–13] | _____ | _____ | _____ |
| 2. If the plan has derivative financial instruments and has adopted SFAS 133, <i>Accounting for Derivative Instruments and Hedging Activities</i> , ⁷ are the required disclosures of SFAS 133 made?
[SFAS 133, pars. 44 and 45] | _____ | _____ | _____ |

E. Description of Defined Contribution Plan

- | | | | |
|--|-------|-------|-------|
| 1. Do disclosures include a brief, general description of the plan agreement, including, but not limited to, vesting and allocation provisions and the disposition of forfeitures?
[AAG, par. 3.28a; SOP 94-6, par. 10] | _____ | _____ | _____ |
|--|-------|-------|-------|

Practice Tip

If material providing this information is otherwise published and made available to participants (e.g., employee handbook), the disclosures required by SFAS 35, paragraph 28a and AAG, paragraph 3.28a can be omitted provided that a reference to the other source is made.

- | | | | |
|---|-------|-------|-------|
| 2. Do disclosures include the amount of unallocated assets, as well as the basis used to allocate asset values to participants' accounts when that basis differs from the one used to record assets in the financial statements?
[AAG, par. 3.28c] | _____ | _____ | _____ |
|---|-------|-------|-------|

F. Description of Plan Amendments

- | | | | |
|--|-------|-------|-------|
| 1. Do disclosures include a description of significant plan amendments adopted during the year, and the effects of such amendments on net assets if significant either individually or in the aggregate?
[SFAS 35, par. 28b (AC Pe5.127b); AAG, par. 3.28b] | _____ | _____ | _____ |
|--|-------|-------|-------|
-

⁶ SFAS 119 requires disclosures about amounts, nature, and terms of derivative financial instruments that are not subject to SFAS 105 because they do not result in off-balance sheet risk of accounting loss. It requires that a distinction be made between financial instruments held or issued for trading purposes and financial instruments held or issued for purposes other than trading. SFAS 119 requires additional disclosures about those derivative financial instruments held for purposes other than trading, and those accounted for as hedges of anticipated transactions. The required disclosures of SFAS 119 have not been included in the checklist due to the determination that many of the disclosure requirements would not be applicable to defined-contribution plans however if the plan does have these instruments please refer to SFAS 119 for the disclosure requirements.

⁷ SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of net assets available for benefits and measure those instruments at fair value. The required disclosures of SFAS 133 have not been included in the checklist due to the determination that many of the disclosure requirements would not be applicable to defined contribution plans; however, if the plan does have these instruments, please refer to SFAS 133 for the disclosure requirements.

G. Financial Instruments⁸

Note: If SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, has been adopted, step 1 below does not apply. In addition, in step 2 below, the phrase “as amended by SFAS 119, paragraph 15a–d” is replaced by “SFAS 133, paragraph 531a–c.” SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999.⁹

1. If the plan has financial instruments with (a) off-balance-sheet risk, (b) off-balance-sheet credit risk, or (c) significant concentrations of credit risk (except for those excluded in SFAS 105), are the required disclosures made of SFAS 105, *Disclosure of Information About Financial Instruments with Off-Balance Sheet Risk and Financial Statements with Concentrations of Credit Risk*, paragraphs 17, 18, and 20, as amended by SFAS 119, *Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments*, paragraph 14b and d?
[SFAS 105, pars. 17, 18, and 20, as amended by SFAS 119, par. 14b and d]

Practice Tip

SFAS 126, *Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities*, an amendment of FASB Statement No. 107, amends SFAS 107, *Disclosures about Fair Value of Financial Instruments*, to make the disclosures prescribed in SFAS 107 optional for entities that meet all of the following criteria:

- a. The entity is nonpublic.
- b. The entity’s total assets are less than \$100 million on the date of the financial statements.
- c. The entity has not held or issued any derivative financial instruments, as defined in SFAS 119, *Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments*, other than loan commitments, during the reporting period.

2. Is the fair value of financial instruments for which it is practicable to estimate that value (except for those excluded in paragraphs 8 and 13 of SFAS 105 and 107) disclosed, in accordance with SFAS 107, *Disclosures about Fair Value of Financial Instruments*, paragraphs 10 through 13, as amended by SFAS 119, paragraph 15a–d?
[SFAS 107, pars. 10–14, as amended by SFAS 119, par. 15a–d (AC F25.115)]

3. If it is not practicable to estimate the fair market value of a financial instrument are disclosures made in accordance with SFAS 107, as amended, paragraph 14?
[SFAS 107, as amended, par. 14 (AC F25.115)]

Practice Tip

ERISA requires all investments to be valued at fair market value. Although the above disclosure is appropriate for GAAP purposes, it is not accepted by the DOL.

⁸ SFAS 105, as amended by SFAS 119, requires plans to disclose information principally about financial instruments with off-balance-sheet risk and concentrations of credit risk. Some examples of financial instruments of employee benefit plans with off-balance sheet risk that are included within the scope of SFAS 105, are obligations to repurchase securities sold, outstanding commitments to purchase or sell financial instruments at predetermined prices, future contracts, and interest rate and foreign currency swaps. SFAS 107, as amended by SFAS 119, requires plans to disclose fair value of financial instruments for which it is practicable to estimate fair value. All the required disclosures of SFASs 105 and 107 have not been included in the checklist due to the determination that many of the disclosure requirements would not be applicable to defined-contribution plans, however, if the plan does have these instruments please refer to SFAS 105, paragraphs 17–20 and SFAS 107, paragraphs 10–14 for the disclosure requirements.

⁹ At the time this checklist was being updated, the FASB issued an exposure draft proposed to defer the effective date of SFAS 133 until fiscal quarters of fiscal years beginning after June 15, 2000. Users of this checklist should be alert to the issuance of a final pronouncement.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
H. Income Tax Status			
1. If a favorable letter of determination is not obtained or maintained, is the federal income tax status of the plan disclosed? ¹⁰ [AAG, par. 3.28f]	_____	_____	_____
I. Plan Terminations			
1. If a decision is made to terminate the plan, or a wasting trust or frozen plan, are all relevant circumstances of this fact disclosed? [AAG, par. 3.47]	_____	_____	_____
2. If a decision is made to terminate the plan before the end of the plan year, are the plan's year-end financial statements prepared on the liquidation basis? [AAG, par. 3.48]	_____	_____	_____
3. If a decision is made to terminate the plan after the end of the plan year but before the financial statements have been issued, is this fact disclosed? [SAS 1, sec. 560.05 (AU 560.05); AAG, par. 3.48]	_____	_____	_____
J. Related-Party Transactions			
1. For related-party transactions, do disclosures include:			
a. The nature of the relationship(s) involved?	_____	_____	_____
b. For each period for which a statement of changes in net assets is presented:			
(1) A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed?	_____	_____	_____
(2) Other information deemed necessary to gain an understanding of the effects of the transactions on the financial statements?	_____	_____	_____
(3) The dollar amount of transactions?	_____	_____	_____
(4) The effects of any changes in the method of establishing the terms from that used in the preceding period?	_____	_____	_____
c. Amounts due from or to related parties as of each "Statement of Net Assets Available for Benefits" presented and, if not otherwise apparent, the terms and manner of settlement?	_____	_____	_____
2. Is the nature of a controlled relationship disclosed (even if there are no transactions between the entities) if the plan and one or more other entities are under common ownership or management control, and the existence of the control could result in operating results or financial position of the plan being significantly different from those that would have resulted if the plan were autonomous? [SFAS 57, pars. 2-4 (AC R36.102-.104)]	_____	_____	_____
3. Are the nature and extent of leasing transactions with related parties appropriately disclosed? [SFAS 13, par. 29 (AC L10.125)]	_____	_____	_____

¹⁰ Reports filed in accordance with the requirements of ERISA must include disclosure of "information concerning whether or not a tax ruling or determination letter has been obtained," which is more than is required by SFAS 35, as amended. [AAG, par. 3.28f]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. If representations about transactions with related parties are made, do they avoid the implication that the related party transactions were consummated at arm's length, or if such implications are made, can they be substantiated? [SFAS 57, par. 3 (AC R36.103)]	_____	_____	_____
5. Do the financial statements include a description of any agreements and transactions with persons known to be parties-in-interest? [AAG, par. 3.28 <i>h</i> and App. A, par. A.51 <i>c</i>]	_____	_____	_____

Practice Tip

ERISA defines a party-in-interest generally as any fiduciary or employee of the plan, any person who provides services to the plan, an employer whose employees are covered by the plan, an employee organization whose members are covered by the plan, a person who owns 50 percent or more of such an employer or employee association, or relatives of a person described above.
[AAG 11.01, App. A, par. A.85, fn. 103; ERISA sec. 3(14)]

K. Subsequent Events

1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence about conditions that existed at the date of the "Statement of Net Assets Available for Benefits"? [SFAS 5, par. 8 (AC C59.105); SAS 1, sec. 560.03, .04, and .07 (AU 560.03, .04, and .07)]	_____	_____	_____
2. Are subsequent events that provide evidence about conditions that did not exist at the date of the "Statement of Net Assets Available for Benefits," but arose subsequent to that date, adequately disclosed? ¹¹ [SFAS 5, par. 11 (AC C59.112); SAS 1, sec. 560.05-.07 and .09 (AU 560.05-.07 and .09); AAG, pars. 3.28 <i>n</i> and 3.48]	_____	_____	_____

L. Other Matters

1. Do disclosures include the basis for determining contributions by employers and any changes in such policy during the plan year? [AAG, par. 3.28 <i>d</i>]	_____	_____	_____
<i>a.</i> If significant costs of plan administration are being absorbed by the employer, is this fact disclosed? [AAG, par. 3.28 <i>d</i> , fn. 12]	_____	_____	_____
<i>b.</i> For a contributory plan, does the disclosure state the method of determining the participants' contributions? [AAG, par. 3.28 <i>d</i>]	_____	_____	_____
2. Do disclosures include significant real estate or other transactions in which the plan and any of the following parties are jointly involved: (a) the sponsor, (b) the employer(s), or (c) the employee organization(s)? [See also section J, Related-Party Transactions, regarding parties-in-interest.] [AAG, par. 3.28 <i>h</i>]	_____	_____	_____
3. For plans that assign units to participants, do disclosures include the total number of units and the net asset value per unit during the period and at the end of the period? (This disclosure does not apply to plans that invest in units of external investment funds, for example, mutual funds.) [AAG, par. 3.28 <i>l</i>]	_____	_____	_____

¹¹ Also, consider the appropriateness of dual dating the auditor's report for the subsequent event. [SAS 1, sec. 530.05 (AU 530.05)]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. Do disclosures include the amount and disposition of forfeited non-vested accounts, specifically, identification of those amounts that will be used to reduce future employer contributions? [AAG, par. 3.28o]	_____	_____	_____

ERISA Reporting Requirements

A. Form 5500 Series Report

1. Did plans with 100 or more participants at the beginning of the plan year file an annual report (Form 5500) containing financial statements prepared in accordance with either GAAP, or an other comprehensive basis of accounting (OCBOA), such as the cash basis or modified cash basis of accounting, separate schedules, notes (required for a full and fair presentation), and an independent public accountant's report prepared under generally accepted auditing standards? [AAG, par. 13.20 and App. A, par. A.18]	_____	_____	_____
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Practice Tip

Pursuant to DOL Regulations 29 CFR 2520.103-1(d), a plan that covers between 80 and 120 participants at the beginning of the plan year may elect to file the same report that was filed the previous year. Plans that file the Form 5500-C/R pursuant to the 80/120 rule are not required to have an audit of their financial statements.
[ref. DOL Reg. 29 CFR 2520.104-46]

B. Financial Statement Disclosures Required Under the Alternative Method of Compliance for Pension Plans Pursuant to DOL Regulations Section CFR 2520.103 and Section 103 of ERISA

1. If the financial statements of the pension plan are filed under the "alternative method" pursuant to DOL Regulations Section 2520.103-1(a)(2), do the disclosures in the financial statements include:			
a. A description of accounting principles and variances from GAAP?	_____	_____	_____
b. A description of the plan, including significant changes in the plan, and the effect of the changes on benefits?	_____	_____	_____
c. The funding policy and changes in the funding policy from the prior year?	_____	_____	_____
d. A description of material lease commitments, and other commitments and contingent liabilities?	_____	_____	_____
e. A description of any agreements and transactions with persons known to be parties-in-interest?	_____	_____	_____
f. A general description of priorities in the event of plan termination?	_____	_____	_____
g. Whether a tax ruling or determination letter has been obtained?	_____	_____	_____
h. An explanation of any differences between the separate financial statements and the financial information required on Form 5500? [AAG, App. A, par. A.51c]	_____	_____	_____

C. Required Financial Statements and Supporting Schedules

- For plans filing under either method are the following financial statements included and covered by the auditor's report:

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Statement of plan assets and liabilities by category at fair value and in comparative form for the beginning and end of the plan year?	_____	_____	_____
b. Separate or combined statements of plan income and expenses and of changes in net assets? [AAG, App. A, par. A.51a]	_____	_____	_____
2. Pursuant to DOL regulations, are the following <i>separate schedules</i> included with the financial statements of the plan and covered by the auditor's report:			

Practice Tip

The instructions to the Form 5500 provide specific information as to the form and content of the various schedule requirements.

a. Assets held for investment purposes (if filing under the alternative method, a separate schedule of assets held at plan year-end and a schedule of certain assets acquired and disposed of within the plan year), showing separate disclosure of the net realized gain or loss on sales of securities and the net unrealized appreciation (depreciation) of investments held:			
(1) Is the schedule clearly labeled "Line 27a—Schedule of Assets Held for Investment Purposes"?	_____	_____	_____
b. Loans or fixed income obligations that are in default or uncollectible:			
(1) Is the schedule clearly labeled "Line 27b—Schedule of Loans or Fixed Income Obligations"?	_____	_____	_____
c. Leases in default or uncollectible:			
(1) Is the schedule clearly labeled "Line 27c—Schedule of Leases in Default or Classified as Uncollectible"?	_____	_____	_____
d. Reportable transactions, including all individual security transactions that exceed 5 percent (regulations) ¹² of the fair value of plan assets at the beginning of the year:			
(1) Is the schedule clearly labeled "Line 27d—Schedule of Reportable Transactions"?	_____	_____	_____
e. Non-exempt transactions with parties-in-interest:			
(1) Is the schedule clearly labeled "Line 27e—Schedule of Non-exempt Transactions" and/or "Line 27f—Schedule of Non-exempt Transactions"?	_____	_____	_____
[Instructions to Form 5500]			

¹² Three percent statute.

FSP Section 8300

Auditors' Report Checklist

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid.

.02 Explanation of References:

AAG =	AICPA Audit and Accounting Guide <i>Audits of Employee Benefit Plans</i> —with conforming changes as of May 1, 1998
SAS =	AICPA Statement on Auditing Standards
AU =	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1)
SSARS =	AICPA Statements on Standards for Accounting and Review Services
AR =	Reference to section number in <i>AICPA Professional Standards</i> (vol. 2)
DOL =	Department of Labor
CFR =	Code of Federal Regulations

.03 Checklist Questionnaire:

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Is each financial statement audited, specifically identified in the introductory paragraph of the auditor's report? [SAS 58, par. 6 (AU 508.06)]	_____	_____	_____
2. Do the titles of the financial statements referred to in the introductory paragraph of the auditor's report match the titles of the financial statements presented? [Generally Accepted]	_____	_____	_____
3. Do the dates of the financial statements referred to in the introductory paragraph of the auditor's report match the dates of the financial statements presented? [Generally Accepted]	_____	_____	_____
4. Is the report appropriately addressed? [SAS 58, par. 9 (AU 508.09)]	_____	_____	_____
5. Does the auditor's report include:			
a. A title that includes the word "independent"? [SAS 58, par. 8a (AU 508.08a)]	_____	_____	_____
b. A statement that the financial statements identified in the report were audited? [SAS 58, par. 8b (AU 508.08b)]	_____	_____	_____
c. A statement that the financial statements are the responsibility of management and that the auditor's responsibility is to express an opinion on the financial statements based on his or her audit? [SAS 58, par. 8c (AU 508.08c)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. A statement that the audit was conducted in accordance with generally accepted auditing standards? [SAS 58, par. 8d (AU 508.08d)]	_____	_____	_____
<i>or</i>			
e. If the plan prepares its financial statements on a comprehensive basis of accounting other than GAAP:			
(1) Does the report include a paragraph that—			
(a) States the basis of presentation and refers to the note to the financial statements that describes the basis?	_____	_____	_____
(b) States that the basis of presentation is a comprehensive basis of accounting other than generally accepted accounting principles?	_____	_____	_____
(c) Expresses the auditor's opinion (or disclaims an opinion) on whether the financial statements are presented fairly, in all material respects, in conformity with the basis of accounting described?	_____	_____	_____
(2) If the auditor concludes that the financial statements are not presented fairly on the basis of accounting described or if there has been a limitation on the scope of the audit, does the report:			
(a) Disclose (in a paragraph preceding the opinion paragraph) all the substantive reasons for that conclusion?	_____	_____	_____
(b) Include in the opinion paragraph the appropriate modifying language and a reference to such explanatory paragraph(s)? [SAS 62, par. 5d and e (AU 623.05d and e)]	_____	_____	_____
f. A statement that generally accepted auditing standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement? [SAS 58, par. 8e (AU 508.08e)]	_____	_____	_____
g. A statement that an audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation? [SAS 58, par. 8f (AU 508.08f)]	_____	_____	_____
h. A statement that the auditor believes that his or her audit provides a reasonable basis for his or her opinion? [SAS 58, par. 8g (AU 508.08g)]	_____	_____	_____
i. An opinion as to whether the financial statements present fairly, in all material respects, the financial position of the reporting entity as of the balance sheet date and the results of its operations and its cash flows for the period then ended in conformity with generally accepted accounting principles? [SAS 58, par. 8h (AU 508.08h)]	_____	_____	_____
j. The manual or printed signature of the auditor's firm? [SAS 58, par. 8i (AU 508.08i)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
k. The date (or dual dates) ¹ of the audit report? [SAS 58, par. 8j (AU 508.08j)]	_____	_____	_____

Practice Tip

DOL Regulations require the auditor's report to be dated and manually signed and to identify the city and state where issued.

6. If a subsequent event disclosed in the financial statements occurs after completion of field work but before the issuance of the auditor's report, has the need for dual-dating of the report been considered? [SAS 1, sec. 530, pars. 3–5 (AU 530.03–.05)]	_____	_____	_____
7. If the auditor is not independent, is a compilation report indicating the lack of independence issued? [SAS 26, par. 10 (AU 504.10); SSARS 1, pars. 22 and 38 (AR 100.22 and .38)]	_____	_____	_____
8. Does the report include appropriate language for the following situations:			
a. Only one basic financial statement is presented and there are no scope limitations? [SAS 58, pars. 33 and 34 (AU 508.33 and .34)]	_____	_____	_____
b. Audited and unaudited financial statements are presented in comparative form? [SAS 26, pars. 14–17 (AU 504.14–.17)]	_____	_____	_____
c. The financial statements of the plan contain supplemental schedules relating to ERISA and DOL Regulations? [AAG, pars. 13.10–13.19]	_____	_____	_____
d. The financial statements of the plan include separate Investment Fund Information? [AAG, pars. 13.38–13.40]	_____	_____	_____

Practice Tip

The Guide includes additional auditor reports with respect to "financial statements of a trust" and "inadequate procedures to value investments."
[AAG, pars. 13.31 and 13.36]

Explanatory Paragraphs

9. If the opinion is based in part on the report of another auditor:			
a. Does the introductory paragraph of the standard report disclose the fact that the opinion is based, in part, on the report of other auditors?	_____	_____	_____
b. Does the opinion paragraph include a reference to the report of the other auditor? [SAS 58, pars. 11a, 12, and 13 (AU 508.11a, .12, and .13)]	_____	_____	_____
10. If, to prevent the financial statements from being misleading because of unusual circumstances, the financial statements contain a departure from an accounting principle promulgated by a body designated by the AICPA Council to establish such principles, does the report include, in a separate paragraph or paragraphs, the information required by the rule? [SAS 58, pars. 11b and 15 (AU 508.11b and .15)]	_____	_____	_____

¹ If a subsequent event is disclosed, the appropriateness of dual dating the report should be considered. [SAS 1, sec. 530.05 (AU 530.05)]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
11. If there is substantial doubt about the entity's ability to continue as a going concern:			
a. Does the report include an explanatory paragraph, following the opinion paragraph, to reflect that conclusion?	_____	_____	_____
b. Is that conclusion expressed through the use of the phrase "substantial doubt about its (the entity's) ability to continue as a going concern" or similar wording that includes the terms substantial doubt and going concern? [SAS 58, par. 11c (AU 508.11c); SAS 59, as amended by SAS 64, par. 12 (AU 341.12)]	_____	_____	_____

Practice Tip

In a going concern paragraph, the auditor should not use conditional language in expressing a conclusion concerning the existence of substantial doubt about the entity's ability to continue as a going concern. See SAS 77 for an example. [SAS 59, as amended by SAS 64 and SAS 77, par. 13]

12. If there has been a material change between periods in accounting principles or in the method of their application that has a material effect on the comparability of the reporting entity's financial statements:			
a. Does the report include an explanatory paragraph, following the opinion paragraph, that refers to the change?	_____	_____	_____
b. Does the explanatory paragraph identify the nature of the change and refer the reader to the note to the financial statements that discusses the change in detail? [SAS 58, as amended by SAS 79, pars. 11d and 16 (AU 508.11d and .16)]	_____	_____	_____
13. In an updated report, the opinion is different from the opinion previously expressed on the financial statements of a prior period:			
a. Does the report include an explanatory paragraph, preceding the opinion paragraph, that discloses all of the substantive reasons for the different opinion?	_____	_____	_____
b. Does the explanatory paragraph disclose:			
(1) The date of the auditor's previous report?	_____	_____	_____
(2) The type of opinion previously expressed?	_____	_____	_____
(3) The circumstances or events that caused the auditor to express a different opinion?	_____	_____	_____
(4) That the auditor's updated opinion on the financial statements of the prior period is different from his or her previous opinion on those statements? [SAS 58, as amended by SAS 79, pars. 11e and 69 (AU 508.11e and .69)]	_____	_____	_____
14. If financial statements of a prior period (presented for comparative purposes) have been audited by a predecessor auditor whose report is not presented:			
a. Does the introductory paragraph of the report indicate:			
(1) That the financial statements of the prior period were audited by another auditor?	_____	_____	_____
(2) The date of the predecessor auditor's report?	_____	_____	_____
(3) The type of report issued by the predecessor auditor?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(4) If the report was other than a standard report, the substantive reasons therefor, including a description of the nature of and reasons for the explanatory paragraph added to the predecessor's report or his or her opinion qualification?	_____	_____	_____
b. If the financial statements have been restated, does the introductory paragraph indicate that the predecessor auditor reported on the financial statements of the prior period before restatement? [SAS 58, as amended by SAS 79, pars. 11e and 74 (AU 508.11e and .74)]	_____	_____	_____
15. If supplementary information required by the FASB has been omitted, the presentation of such information departs materially from FASB guidelines, the auditor is unable to complete prescribed procedures with respect to such information, or the auditor is unable to remove substantial doubt about whether the supplementary information conforms to FASB guidelines, does the report include an additional paragraph stating that fact? [SAS 58, par. 11g (AU 508.11g); SAS 52, par. 8 (AU 558.08)]	_____	_____	_____
16. If other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements, has it been determined whether the financial statements, the auditor's report, or both require revision? [SAS 58, par. 11h (AU 508.11h); SAS 8, par. 4 (AU 550.04)]	_____	_____	_____
17. If the auditor decides to emphasize a matter regarding the financial statements in the report, is the explanatory information presented in a separate paragraph that avoids use of phrases such as "with the foregoing (following) explanation"? [SAS 58, pars. 11 and 19, as amended by SAS 79 (AU 508.11 and .19); Interpretation 3 of SAS 1, sec. 410 (AU 9410.18); Interpretation 1 of SAS 57 (AU 9342.03)]	_____	_____	_____
18. If the decision has been made to terminate a plan:			
a. Is the auditor's report modified by the addition of an explanatory paragraph that states that the plan is being terminated and that the financial statements (including the benefit information disclosures presented) have been prepared on a liquidation basis? [AAG, par. 13.41]	_____	_____	_____
b. Does the explanatory paragraph state that the plan has changed the basis of accounting used to determine the amounts at which assets, liabilities, and benefit information are presented from the ongoing plan basis to a liquidation basis if the financial statements are presented along with financial statements of a period prior to adoption of a liquidation basis? [Interpretation 8 of SAS 58 (AU 9508.35)]	_____	_____	_____

Practice Tip

DOL Regulation Section CFR 2520 requires that the auditor separately identify any exceptions to his or her report that are the result of DOL Regulations.

Departures From Unqualified Opinions

- | | | | |
|---|-------|-------|-------|
| 19. If it has not been possible to conduct the audit in accordance with GAAS or to apply all of the procedures considered necessary in the circumstances, has consideration been given to the need to issue a qualified opinion or to disclaim an opinion?
[SAS 58, as amended by SAS 79, par. 22 (AU 508.22)] | _____ | _____ | _____ |
|---|-------|-------|-------|

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
20. If a qualified opinion is to be expressed because of a scope limitation:			
a. Are all of the substantive reasons for the qualification disclosed in one or more explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
b. Does the qualified opinion include the word <i>except</i> or <i>exception</i> in a phrase such as <i>except for</i> or <i>with the exception of</i> ?	_____	_____	_____
c. Is the situation described and referred to in both the scope and opinion paragraphs?	_____	_____	_____
d. Does the wording in the opinion paragraph indicate that the qualification pertains to the possible effects on the financial statements and not the scope limitation itself? [SAS 58, as amended by SAS 79, pars. 22–27 (AU 508.22–.27)]	_____	_____	_____

Practice Tips

Scope limitations include situations in which the auditor is unable to obtain sufficient evidential matter to support management's assertions about the nature of a matter involving an uncertainty and its presentation or disclosure in the financial statements. [SAS 58, as amended by SAS 79, par. 31]

Consult the Topical Index to the AICPA *Professional Standards* under "Scope of Audit — Limitations" for additional references to specific types of scope limitations that could result in either a qualified or disclaimer of opinion.

21. If an opinion is disclaimed because of a scope limitation:			
a. Are all of the substantive reasons for the disclaimer stated in a separate paragraph or paragraphs?	_____	_____	_____
b. Does the report state that the scope of the audit was not sufficient to warrant the expression of an opinion?	_____	_____	_____
c. Does the report avoid identifying procedures that were performed?	_____	_____	_____
d. Is the scope paragraph omitted?	_____	_____	_____
e. If there are reservations about fair presentation of the financial statements in conformity with GAAP, are they described in the report? [SAS 58, as amended by SAS 79, par. 63 (AU 508.63)]	_____	_____	_____
22. If the financial statements are materially affected by a departure from GAAP (including inadequate disclosure, inappropriate accounting principles, and unreasonable accounting estimates), has consideration been given to the need to issue a qualified opinion or an adverse opinion? ² [SAS 58, as amended by SAS 79, par. 35 (AU 508.35)]	_____	_____	_____
23. If a qualified opinion is to be expressed because of a GAAP departure:			
a. Are all of the substantive reasons that have led to the conclusion that there is a departure from GAAP disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
b. Does the qualified opinion include the word <i>except</i> or <i>exception</i> in a phrase such as <i>except for</i> or <i>with the exception of</i> and a reference to the explanatory paragraph?	_____	_____	_____

² The auditor should express a qualified or an adverse opinion if the auditor concludes that (a) a matter involving a risk or an uncertainty is not adequately disclosed, (b) the accounting principles used cause the financial statements to be materially misstated when the inability to make a reasonable estimate raises questions about the appropriateness of the accounting principles used, and (c) management's estimate is unreasonable and that its effect is to cause the financial statements to be materially misstated. [SAS 58, as amended by SAS 70, pars. 46–49]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so? [SAS 58, as amended by SAS 79, pars. 37 and 38 (AU 508.37 and .38)]	_____	_____	_____
24. If an adverse opinion is to be expressed because of a GAAP departure:			
a. Are all of the substantive reasons for the adverse opinion disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
b. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so?	_____	_____	_____
c. State that the financial statements do not present fairly the financial position, or results of operations or cash flows in conformity with GAAP? [SAS 58, as amended by SAS 79, pars. 58 and 59 (AU 508.58 and .59)]	_____	_____	_____
25. If a limited scope audit is performed pursuant to DOL Regulations 29 CFR section 2520.103-8, is a disclaimer of opinion expressed? [AAG, pars. 13.26–13.30]	_____	_____	_____

Practice Tip

Consult the Topical Index to the AICPA *Professional Standards* under “Departures from Established Principles,” “Adverse Opinions,” and “Qualified Opinions” for additional references to specific types of GAAP departures that could result in either a qualified or adverse opinion.

26. If information accompanies the basic financial statements and auditor’s report in an auditor-submitted document, does the report on the accompanying information:			
a. State that the audit is performed for the purpose of forming an opinion on the basic financial statements taken as a whole?	_____	_____	_____
b. Specifically identify the accompanying information?	_____	_____	_____
c. State that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements?	_____	_____	_____
d. State whether the accompanying information was subjected to the auditing procedures applied in the audit of the basic financial statements and includes the appropriate expression of opinion or disclaimer? [SAS 29, pars. 6–11 (AU 551.06–.11)]	_____	_____	_____
e. State that the supplemental schedules are the responsibility of the plan’s management? (<i>Recommended but not a required disclosure.</i>) [AAG, par. 13.11]	_____	_____	_____

Practice Tip

Step 26 above does not apply to limited-scope audits pursuant to DOL Regulations 29 CFR section 2520.103-8. In these situations, see Step 25 above and AAG paragraph 13.26.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
27. Auditor's report requirements under DOL regulations:			
a. Is the auditor's report dated and manually signed? [AAG, App. A, fn. 90]	_____	_____	_____
b. Does it indicate the city and state where issued? [AAG, App. A, fn. 90]	_____	_____	_____
c. Does it identify the statements and schedules covered? [AAG, App. A, fn. 90]	_____	_____	_____
d. Does it disclose any omitted auditing procedures deemed necessary by the auditor and the reasons for their omission?	_____	_____	_____
e. State clearly the auditor's opinion of the financial statements and schedules covered by the report, and the accounting principles and practices reflected therein?	_____	_____	_____
f. State clearly the consistency of the application of the accounting principles between the current year and the preceding year or as to any changes in such principles which have a material effect on the financial statements? [AAG, App. A, par. A.50a; DOL Regulations, sec. 29 CFR 2520; SFAS 107, par. 15C (AC F25)]	_____	_____	_____
g. State clearly any matters to which the auditor takes exception, the exception, and to the extent practical, the effect of such matter on the related financial statements? [29 CFR 2520.103-1(iv)]	_____	_____	_____
(1) Are the exceptions, if any, further identified as (a) those that are the result of DOL regulations, and (b) all others? [AAG, App. A, par. A.50a; DOL Regulations, sec. 29 CFR 2520]	_____	_____	_____

FSP Section 8400

Illustrative Financial Statements and Auditor's Reports

.01 This section illustrates certain applications of the provisions of chapter 3 of the Audit and Accounting Guide *Audits of Employee Benefit Plans* (the Guide), that apply for the annual financial statements of the following hypothetical plans:

- XYZ Company 401(k) Plan (full scope audit) [section 8400.17–.21]
- Alpha Company 401(k) Employee Savings Plan (limited scope audit with supplemental schedules—together with auditor's report) [section 8400.22–.28]
- XYZ Company Profit-Sharing Plan [section 8400.29–.31]
- ABC Company Profit-Sharing Plan (with auditor's report) [section 8400.32–.35]
- Sponsor Company Employee Stock Ownership Plan [section 8400.36–.38]

It does not illustrate other provisions of chapter 3 of the Guide that might apply in circumstances other than those assumed in this example. The formats presented and the wording of accompanying notes are only illustrative and are not necessarily the only possible presentations. The illustrative financial statements have not been revised to reflect the provisions of SFAS 133.

.02 Although generally accepted accounting principles (GAAP) do not require comparative financial statements, ERISA requires a comparative statement of net assets available for benefits. The illustrative financial statements are intended to comply with the ERISA requirements for comparative statements.

.03 ERISA and DOL regulations require that certain information be included in supplemental schedules, which are not required under GAAP, and reported on by the independent auditor. See the Alpha Company 401(k) Employee Savings Plan for an illustration of certain of the supplemental schedules.

.04 This section also includes the following illustrative auditor's reports:

- Unqualified opinion for profit-sharing plan (full scope audit) [section 8400.04]
- Unqualified opinion on supplemental schedules [section 8400.05]
- Modified opinions on the supplemental schedules because of omitted information or an omitted schedule [section 8400.06–.09]
- Modified opinions on the supplemental schedules because disclosures of a material prohibited transaction with a party in interest is omitted [section 8400.10–.13]
- Limited-scope opinions [section 8400.14–.16]

The following is an illustration of an auditor's report with an **unqualified opinion** on the financial statements of a profit-sharing plan.

.05

Independent Auditor's Report

[Addressee]

We have audited the accompanying statements of net assets available for benefits of XYZ Company Profit-Sharing Plan as of December 31, 19X1 and 19X0, and the related statement of changes in net assets available for benefits for the year ended December 31, 19X1. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 19X1 and 19X0, and the changes in net assets available for benefits for the year ended December 31, 19X1 in conformity with generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of [identify] are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.¹

[Signature of Firm]

[City and State]

[Date]

[AAG, pars. 13.06, 13.11, and 13.12]

¹ This paragraph on the supplemental schedules required by ERISA and DOL regulations may also be shown separately in the auditor-submitted document.

The following are illustrations of paragraphs that should be added to the auditor's report when the auditor should modify his or her report on the supplemental schedules because of omitted information or an omitted schedule which is required under DOL regulations.

.06

**Modified Report—Omitted Information or Omitted
Schedule Required Under DOL Regulations**

Independent Auditor's Report

[Addressee]

[Same first, second, and third paragraphs as the standard report.]

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of [identify] are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations of Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The schedule of assets held for investment purposes that accompanies the Plan's financial statements does not disclose the historical cost of certain plan assets held by the Plan trustee [or custodian]. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

or

The Plan has not presented the schedule of reportable transactions (transactions in excess of 5 percent of the current value of plan assets at the beginning of the year). Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.17]

The following paragraphs should be added to the auditor's report when the auditor concludes that his or her opinion on the supplemental schedules should be qualified because a schedule, or information thereon, was omitted (when the schedules are not covered by a trustee's certification as to completeness and accuracy), or because information in a required schedule is materially inconsistent with the financial statements.

.07

**Qualified Opinion—Omitted or Incomplete
Schedule or Material Inconsistency**

Independent Auditor's Report

[Addressee]

[Same first, second, and third paragraphs as the standard report.]

The schedule of assets held for investment purposes that accompanies the Plan's financial statements does not disclose that the Plan had loans to participants which are considered assets held for investment purposes. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of [identify] are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, except for the omission of the information discussed in the preceding paragraph, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.17]

In the following illustration, the schedule of assets held for investment purposes which accompanies the Plan's financial statements does not disclose that the Plan has loans to participants. Because the omitted participant loan information is information that is not certified by the trustee or custodian, an omission of participant loan information would require that a qualified or adverse opinion be issued on the applicable supplemental schedules.

.08

**Modified Report—Omitted Information or Omitted Schedule
Required Under DOL Regulations in a Limited Scope Engagement**

Independent Auditor's Report

[Addressee]

[Same first and second paragraphs as the limited-scope report.]

The schedule of assets held for investment purposes that accompanies the Plan's financial statements does not disclose that the Plan has loans to participants which are considered assets held for investment purposes. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and schedules taken as a whole. The form and content of the information included in the financial statements and schedules, other than that derived from the information certified by the trustee, have been audited by us in accordance with generally accepted auditing standards and, in our opinion, except for the omission of the information discussed in the preceding paragraph, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.17]

or

In the following illustration, the Plan has not presented the schedule of reportable transactions. Because the schedule of reportable transactions is information that is certified by the trustee or custodian, an omission of the schedule would require that an explanatory paragraph be added to the auditor's report.

.09

Independent Auditor's Report

[Addressee]

[Same first, second, and third paragraphs as the limited-scope report.]

The Plan has not presented the schedule of reportable transactions (transactions in excess of 5 percent of the current value of plan assets at the beginning of the year). Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.17]

The following paragraphs should be added to the auditor's report on the plan's financial statements when the auditor concludes that his or her opinion on the supplemental schedules should be modified because disclosures of a material prohibited transaction with a party in interest is omitted.

.10

**Qualified Opinion—Disclosure of Material Prohibited
Transaction With Party in Interest Omitted**

Independent Auditor's Report

[Addressee]

[Same first, second, and third paragraphs as the standard report.]

The schedule of prohibited transactions that accompanies the plan's financial statements does not disclose that the Plan [*describe prohibited transaction*]. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules [*identify*] are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, except for the omission of the information discussed in the preceding paragraph, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.18]

**Adverse Opinion—Disclosure of Material Prohibited
Transaction With Party in Interest Omitted**

Independent Auditor's Report

[Addressee]

[Same first, second, and third paragraphs as the standard report.]

The schedule of prohibited transactions that accompanies the plan's financial statements does not disclose that the Plan [*describe prohibited transaction*]. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of [*identify*] are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, because of the omission of the information discussed in the preceding paragraph are not fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.18]

The following paragraphs should be added to the auditor's report on the plan's financial statements when the auditor decides to modify his or her report on the supplemental schedules because disclosure of a prohibited transaction with a party in interest that is **not material** to the financial statements has been omitted.

.12

**Modified Report—Disclosure of Immaterial Prohibited
Transaction With Party in Interest Omitted**

Independent Auditor's Report

[Addressee]

[Same first, second, and third paragraphs as the standard report.]

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of *[identify]* are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The schedule of prohibited transactions that accompanies the plan's financial statements does not disclose that the Plan *[describe prohibited transaction]*. Disclosure of this information, which is not considered material to the financial statements taken as a whole, is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.18]

The following is an example of a qualified opinion issued on the financial statements of a profit-sharing plan, and the related supplementary schedules, when the auditor concludes that the plan has entered into a prohibited transaction with a party in interest that is also considered a related-party transaction and is material to the financial statements, and the transaction has not been properly disclosed in the notes to the financial statements and the required supplementary schedule.

.13

Independent Auditor's Report

[Addressee]

We have audited the accompanying statement of net assets available for benefits of XYZ Company Profit-Sharing Plan as of December 31, 19X1 and 19X0, and the related statement of changes in net assets available for benefits for the year ended December 31, 19X1. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Plan's financial statements do not disclose that the Plan [*describe related-party transaction*]. Disclosure of this information is required by generally accepted accounting principles.

In our opinion, except for the omission of the information discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 19X1 and 19X0, and the changes in net assets available for benefits for the year ended December 31, 19X1 in conformity with generally accepted accounting principles.

The schedule of prohibited transactions that accompanies the plan's financial statements does not disclose that the plan [*describe prohibited transaction*]. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of [*identify*] are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, except for the omission of the information discussed in the preceding paragraph, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.19]

The following are illustrations of **Limited-Scope** auditor reports.

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Independent Auditor's Report

[Addressee]

We were engaged to audit the financial statements and supplemental schedules of XYZ Pension Plan as of December 31, 19X1 and 19X0, and for the year ended December 31, 19X1, as listed in the accompanying index. These financial statements and schedules are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note X, which was certified by ABC Bank, the trustee (or custodian) of the Plan, except for comparing such information with the related information included in the financial statements and supplemental schedules. We have been informed by the plan administrator that the trustee (or custodian) holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee (or custodian) as of December 31, 19X1 (and 19X0), and for the year ended December 31, 19X1 that the information provided to the plan administrator by the trustee (or custodian) is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and schedules taken as a whole. The form and content of the information included in the financial statements and schedules, other than that derived from the information certified by the trustee or custodian, have been audited by us in accordance with generally accepted auditing standards and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.26]

The following illustrates a report on comparative financial statements of a 401(k) plan when the plan administrator elects not to limit the scope of the audit in the current year even though the scope of the audit in the prior year was limited in accordance with DOL.

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Limited-Scope Audit in Prior Year

Independent Auditor's Report

[Addressee]

We have audited the accompanying statements of net assets available for benefits of XYZ Company 401(k) Plan as of December 31, 19X2 and 19X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 19X2. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as explained in the following paragraph, we conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, investment assets held by ABC Bank, the trustee of the Plan, and transactions in those assets were excluded from the scope of our audit of the Plan's 19X1 financial statements, except for comparing the information provided by the trustee, which is summarized in Note X, with the related information included in the financial statements.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the Plan's financial statements as of December 31, 19X1. The form and content of the information included in the 19X1 financial statements, other than that derived from the information certified by the trustee, have been audited by us and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

In our opinion, the financial statements, referred to above, of XYZ Company 401(k) Plan as of December 31, 19X2, and for the year then ended present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 19X2, and the changes in net assets available for benefits for the year then ended in conformity with generally accepted accounting principles.

Our audit of the Plan's financial statements as of and for the year ended December 31, 19X2, was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of [identify] are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended December 31, 19X2, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[Signature of Firm]

[City and State]

[Date]

The following illustrates a report on comparative financial statements of a 401(k) plan when the plan administrator elects to exclude from the auditor's examination plan assets held by banks or insurance companies in the current year, whereas the scope of the audit in the prior year was unrestricted.

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Limited-Scope Audit in Current Year

Independent Auditor's Report

[Addressee]

We were engaged to audit the accompanying statement of net assets available for benefits of XYZ Company 401(k) Plan as of December 31, 19X2 and 19X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 19X2 and the supplemental schedules of (1) assets held for investment purposes, (2) transactions in excess of 5 percent of the current value of plan assets, and (3) investments in loans and fixed income obligations in default or classified as uncollectible as of or for the year ended December 31, 19X2. These financial statements are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note X, which was certified by ABC Bank, the trustee of the Plan, except for comparing the information with the related information included in the 19X2 financial statements and the supplemental schedules. We have been informed by the plan administrator that the trustee holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee as of and for the year ended December 31, 19X2, that the information provided to the plan administrator by the trustee is complete and accurate.

Because of the significance of the information in the Plan's 19X2 financial statements that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and supplemental schedules as of or for the year ended December 31, 19X2. The form and content of the information included in the financial statements and supplemental schedules, other than that derived from the information certified by the trustee, have been audited by us in accordance with generally accepted auditing standards and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

We have audited the statement of net assets available for benefits of XYZ Company 401(k) Plan as of December 31, 19X1, and in our report dated May 20, 19X2, we expressed our opinion that such financial statement presents fairly, in all material respects, the net assets available for benefits of XYZ Company 401(k) Plan as of December 31, 19X1, in conformity with generally accepted accounting principles.

[Signature of Firm]

[City and State]

[Date]

401(k) Plan

XYZ COMPANY 401(K) PLAN

Statement of Net Assets Available for Benefits

	December 31,	
	19X1	19X0
Assets		
Investments:		
At fair value—(Note B)		
Shares of registered investment companies:		
Prosperity Investments Common Stock Fund	\$1,973,000	\$2,600,000
Prosperity Investments Balanced Fund	3,949,000	3,500,000
XYZ Company Stock	655,000	200,000
Participant notes receivable	100,000	45,000
	<u>6,677,000</u>	<u>6,345,000</u>
At contract value—(Note C)		
National Insurance Company Investment		
Contract #2012A, matures 12/31/X2	2,500,000	1,650,000
	<u>2,500,000</u>	<u>1,650,000</u>
Total investments	<u>9,177,000</u>	<u>7,995,000</u>
Receivables:		
Employer's contribution	14,000	10,000
Participants' contributions	52,000	50,000
	<u>66,000</u>	<u>60,000</u>
Total receivables	<u>66,000</u>	<u>60,000</u>
Total assets	<u>9,243,000</u>	<u>8,055,000</u>
Liabilities		
Accounts payable	10,000	20,000
Accrued expenses	15,000	—
	<u>25,000</u>	<u>20,000</u>
Total liabilities	<u>25,000</u>	<u>20,000</u>
Net assets available for benefits	<u>\$9,218,000</u>	<u>\$8,035,000</u>

The accompanying notes are an integral part of these financial statements.

XYZ COMPANY 401(K) PLAN

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Statement of Net Assets Available for Benefits With Fund Information [Alternative presentation for statement of net assets available for benefits]

December 31, 19X1

	Participant Directed					Non-Participant Directed	Total
	Prosperity Stock Fund	Prosperity Balanced Fund	XYZ Company Stock	Participant Notes	Investment Contract Fund	XYZ Company Stock	
Assets							
Investments, at fair value (Note B):							
Shares of registered investment companies:							
Prosperity Investments Common Stock Fund	\$1,973,000	\$ —	\$ —	\$ —	\$ —	\$ —	\$1,973,000
Prosperity Investments Balanced Fund	—	3,949,000	—	—	—	—	3,949,000
XYZ Company Stock	—	—	455,000	—	—	200,000	655,000
Participant notes receivable	—	—	—	100,000	—	—	100,000
	1,973,000	3,949,000	455,000	100,000	—	200,000	6,677,000
Investments, at contract value (Note C):							
National Insurance Company Investment Contract #2012A, matures 12/31/X2	—	—	—	—	2,500,000	—	2,500,000
Total investments	1,973,000	3,949,000	455,000	100,000	2,500,000	200,000	9,177,000
Receivables:							
Employer's contribution	—	—	—	—	—	—	14,000
Participants' contributions	—	—	—	—	—	—	52,000
Total receivables	—	—	—	—	—	—	66,000
Total assets	1,973,000	3,949,000	455,000	100,000	2,500,000	200,000	9,243,000
Liabilities							
Accounts payable	—	—	—	—	—	—	10,000
Accrued expenses	—	—	—	—	—	—	15,000
Total liabilities	—	—	—	—	—	—	25,000
Net assets available for benefits	\$1,973,000	\$3,949,000	\$455,000	\$100,000	\$2,500,000	\$200,000	\$9,218,000

The accompanying notes are an integral part of these financial statements.

XYZ COMPANY 401(K) PLAN

Statement of Net Assets Available for Benefits With Fund Information
[Alternative presentation for statement of net assets available for benefits]

December 31, 19X0

	Participant Directed					Non-Participant Directed	Total
	Prosperity Stock Fund	Prosperity Balanced Fund	XYZ Company Stock	Participant Notes	Investment Contract Fund	XYZ Company Stock	
Assets							
Investments, at fair value (Note B):							
Shares of registered investment companies:							
Prosperity Investments Common Stock Fund	\$2,600,000	\$ —	\$ —	\$ —	\$ —	\$ —	\$2,600,000
Prosperity Investments Balanced Fund	—	3,500,000	—	—	—	—	3,500,000
XYZ Company Stock	—	—	100,000	—	—	100,000	200,000
Participant notes receivable	—	—	—	45,000	—	—	45,000
	2,600,000	3,500,000	100,000	45,000	—	100,000	6,345,000
Investments, at contract value (Note C):							
National Insurance Company Investment Contract #2012A, matures 12/31/X2	—	—	—	—	1,650,000	—	1,650,000
Total investments	2,600,000	3,500,000	100,000	45,000	1,650,000	100,000	7,995,000
Receivables:							
Employer's contribution	—	—	—	—	—	—	10,000
Participants' contributions	—	—	—	—	—	—	50,000
Total receivables	—	—	—	—	—	—	60,000
Total assets	2,600,000	3,500,000	100,000	45,000	1,650,000	100,000	8,055,000
Liabilities							
Accounts payable	—	—	—	—	—	—	20,000
Net assets available for benefits	\$2,600,000	\$3,500,000	\$100,000	\$45,000	\$1,650,000	\$100,000	\$8,035,000

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Net Assets Available for Benefits With Fund Information

	Year Ended December 31, 19X1					
	Participant Directed			Non-Participant Directed		Total
	Prosperity Stock Fund	Prosperity Balanced Fund	XYZ Company Stock	Investment Contract Fund	Other	
Assets						
Additions to net assets attributed to:						
Investment income						
Net appreciation in fair value of investments	\$ 107,000	\$ 92,000	\$ 40,000	\$ —	\$ —	\$ 279,000
Interest	—	205,000	—	10,000	—	439,000
Dividends	100,000	65,000	—	—	—	165,000
Less investment expenses	207,000 (10,000)	362,000 (20,000)	40,000	10,000	—	883,000 (50,000)
	197,000	342,000	40,000	10,000	—	833,000
Contributions:						
Participants' Employer's	296,000	612,000	307,000	—	246,000	1,513,000
	—	—	—	—	14,000	86,000
	296,000	612,000	307,000	—	246,000	1,599,000
Total additions	493,000	954,000	347,000	10,000	66,000	2,432,000
Deductions						
Deductions from net assets attributed to:						
Benefits paid to participants	400,000	494,000	30,000	—	—	1,144,000
Administrative expenses	25,000	45,000	3,000	—	5,000	105,000
Total deductions	425,000	539,000	33,000	—	5,000	1,249,000
Net increase prior to interfund transfers	68,000	415,000	314,000	10,000	61,000	1,183,000
Interfund transfers	(695,000)	34,000	41,000	45,000	(60,000)	—
Net increase (decrease)	(627,000)	449,000	355,000	55,000	1,000	1,183,000
Net assets available for benefits:						
Beginning of year	2,600,000	3,500,000	100,000	45,000	40,000	8,035,000
End of year	\$1,973,000	\$3,949,000	\$455,000	\$100,000	\$41,000	\$9,218,000

The accompanying notes are an integral part of these financial statements.

XYZ COMPANY 401 (K) PLAN
Notes to Financial Statements

A. Description of Plan

The following description of the XYZ Company ("Company") 401(k) Plan ("Plan") provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

1. **General.** The Plan is a defined contribution plan covering all full-time employees of the Company who have one year of service and are age twenty-one or older. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).
2. **Contributions.** Each year, participants may contribute up to 12 percent of pretax annual compensation, as defined in the Plan. Participants may also contribute amounts representing distributions from other qualified defined benefit or contribution plans. The Company contributes 25 percent of the first 6 percent of base compensation that a participant contributes to the Plan. Additional amounts may be contributed at the option of the Company's board of directors. All employer contributions are invested in XYZ Company common stock. Contributions are subject to certain limitations.
3. **Participant Accounts.** Each participant's account is credited with the participant's contribution and allocations of (a) the Company's contribution and, (b) Plan earnings, and charged with an allocation of administrative expenses. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.
4. **Vesting.** Participants are immediately vested in their contributions plus actual earnings thereon. Vesting in the Company's matching and discretionary contribution portion of their accounts plus actual earnings thereon is based on years of continuous service. A participant is 100 percent vested after five years of credited service.
5. **Investment Options.** Upon enrollment in the Plan, a participant may direct employee contributions in 25 percent increments in any of four investment options.

Prosperity Investments Common Stock Fund—Funds are invested in shares of a registered investment company that invests mainly in common stocks.

Prosperity Investments Balanced Fund—Funds are invested in shares of a registered investment company that invests in corporate bonds, common stocks and U.S. Government securities.

XYZ Company Stock—Funds are invested in common stock of XYZ Company.

National Insurance Company Investment Contract—Funds are invested in a guaranteed investment contract with an insurance company.

Participants may change their investment options quarterly.

6. **Participant Notes Receivable.** Participants may borrow from their fund accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50 percent of their account balance. Loan transactions are treated as a transfer to (from) the investment fund from (to) the Participant Notes fund. Loan terms range from 1-5 years or up to 25 years for the purchase of a primary residence. The loans are secured by the balance in the participant's account and bear interest at a rate commensurate with local prevailing rates as determined quarterly by the Plan administrator. Interest rates range from 6 percent to 10 percent. Principal and interest is paid ratably through monthly payroll deductions.

7. *Payment of Benefits.* On termination of service due to death, disability or retirement, a participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account, or annual installments over a ten year period. For termination of service due to other reasons, a participant may receive the value of the vested interest in his or her account as a lump-sum distribution.
8. *Forfeited Accounts.* At December 31, 19X1, forfeited nonvested accounts totalled \$7,500. These accounts will be used to reduce future employer contributions. Also, in 19X1, employer contributions were reduced by \$5,000 from forfeited nonvested accounts.

B. Summary of Accounting Policies

Basis of Accounting

The financial statements of the Plan are prepared under the accrual method of accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

The Plan's investments are stated at fair value except for its investment contract which is valued at contract value (Note C). Shares of registered investment companies are valued at quoted market prices which represent the net asset value of shares held by the Plan at year-end. The Company stock is valued at its quoted market price. Participant notes receivable are valued at cost which approximates fair value.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Payment of Benefits

Benefits are recorded when paid.

C. Investment Contract With Insurance Company

In 19X0, the Plan entered into an investment contract with National Insurance Company (National). National maintains the contributions in a pooled account. The account is credited with earnings on the underlying investments and charged for Plan withdrawals and administrative expenses charged by National. The contract is included in the financial statements at contract value, (which represents contributions made under the contract, plus earnings, less withdrawals and administrative expenses), because it is fully benefit responsive. For example, participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value. There are no reserves against contract value for credit risk of the contract issuer or otherwise. The fair value of the investment contract at December 31, 19X1 and 19X0 was \$2,600,000 and \$1,716,000, respectively. The average yield and crediting interest rates were approximately eight percent for 19X1 and 19X0. The crediting interest rate is based on an agreed-upon formula with the issuer, but cannot be less than four percent.

D. Related Party Transactions

Certain Plan investments are shares of mutual funds managed by Prosperity Investments. Prosperity Investments is the trustee as defined by the Plan and, therefore, these transactions qualify as party-in-interest. Fees paid by the Plan for the investment management services amounted to \$105,000 for the year ended December 31, 19X1.

E. Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become 100 percent vested in their accounts.

F. Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500:

	<i>December 31,</i>	
	<i>19X1</i>	<i>19X0</i>
Net assets available for benefits per the financial statements	\$9,218,000	\$8,035,000
Amounts allocated to withdrawing participants	(50,000)	(35,000)
Net assets available for benefits per the Form 5500	<u>\$9,168,000</u>	<u>\$8,000,000</u>

The following is a reconciliation of benefits paid to participants per the financial statements to the Form 5500:

	<i>Year ended December 31, 19X1</i>
Benefits paid to participants per the financial statements	\$1,144,000
Add: Amounts allocated to withdrawing participants at December 31, 19X1	50,000
Less: Amounts allocated to withdrawing participants at December 31, 19X0	(35,000)
Benefits paid to participants per the Form 5500	<u>\$1,159,000</u>

Amounts allocated to withdrawing participants are recorded on the Form 5500 for benefit claims that have been processed and approved for payment prior to December 31 but not yet paid as of that date.

G. Tax Status

The Internal Revenue Service has determined and informed the Company by a letter dated August 30, 19XX, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code (IRC). The Plan has been amended since receiving the determination letter. However, the Plan administrator and the Plan's tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

Independent Auditor's Report

To the Pension Committee and Participants of the
Alpha Company 401(k) Employee Savings Plan:

We were engaged to audit the accompanying statements of net assets available for benefits of the Alpha Company 401(k) Employee Savings Plan (the "Plan") as of December 31, 19X2 and 19X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 19X2 and the supplemental schedules of (1) assets held for investment purposes, and (2) reportable transactions as of or for the year ended December 31, 19X2. These financial statements and supplemental schedules are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note 5, which was certified by ABC Bank, the trustee of the Plan, except for comparing such information with the related information included in the 19X2 and 19X1 financial statements and supplemental schedules. We have been informed by the plan administrator that the trustee holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee as of December 31, 19X2 and 19X1 and for the year ended December 31, 19X2, that the information provided to the plan administrator by the trustee is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and supplemental schedules taken as a whole. The form and content of the information included in the financial statements and supplemental schedules, other than that derived from the information certified by the trustee, have been audited by us in accordance with generally accepted auditing standards and, in our opinion, are presented in compliance with the Department of Labor Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

As described in Note 7, as of December 31, 19X2, a portion of the plan's assets were spun-off to create the Alpha Company Profit Sharing and 401(k) Retirement Plan for Part-Time Employees.

[Signature of Firm]

[City and State]

[Date]

**ALPHA COMPANY 401(K)
EMPLOYEE SAVINGS PLAN**

**Statement of Net Assets Available for Benefits
(With Fund Information)**

December 31, 19X2

	<i>Investment Contract Fund</i>	<i>Income Fund</i>	<i>Growth Fund</i>	<i>Balanced Fund</i>	<i>International Equity Fund</i>	<i>Small- Company Fund</i>	<i>Participant Notes Receivable</i>	<i>Total</i>
Investments, at fair value:								
Mutual funds	\$ 0	\$1,377,304	\$2,575,903	\$7,004,561	\$473,401	\$413,568	\$ 0	\$11,844,737
DEF Bank GIC fund	15,096,829	0	0	0	0	0	0	15,096,829
Participant notes receivable at fair value	0	0	0	0	0	0	604,600	604,600
Total investments	15,096,829	1,377,304	2,575,903	7,004,561	473,401	413,568	604,600	27,546,166
Contributions receivable:								
Employer	11,209	1,954	3,759	6,654	887	834	0	25,297
Participant	76,823	12,829	19,865	30,892	3,699	6,037	0	150,145
Total contributions receivable	88,032	14,783	23,624	37,546	4,586	6,871	0	175,442
Net assets available for benefits	\$15,184,861	\$1,392,087	\$2,599,527	\$7,042,107	\$477,987	\$420,439	\$604,600	\$27,721,608

The accompanying notes are an integral part of these financial statements.

**ALPHA COMPANY 401(K)
EMPLOYEE SAVINGS PLAN**

**Statement of Net Assets Available for Benefits
(With Fund Information)**

December 31, 19X1

	<i>Investment Contract Fund</i>	<i>Income Fund</i>	<i>Growth Fund</i>	<i>Balanced Fund</i>	<i>International Equity Fund</i>	<i>Small- Company Fund</i>	<i>Total</i>
Investments, at fair value:							
Mutual funds	\$15,996,086	\$1,447,214	\$2,882,760	\$7,784,250	\$550,280	\$405,992	\$29,066,582
DEF Bank GIC fund	8,538,036	0	0	0	0	0	8,538,036
Total investments	<u>24,534,122</u>	<u>1,447,214</u>	<u>2,882,760</u>	<u>7,784,250</u>	<u>550,280</u>	<u>405,992</u>	<u>37,604,618</u>
Contributions receivable:							
Employer	21,158	3,842	6,730	11,072	2,012	1,012	45,826
Participant	121,386	19,364	31,634	46,528	10,370	7,004	236,286
Total contributions receivable	<u>142,544</u>	<u>23,206</u>	<u>38,364</u>	<u>57,600</u>	<u>12,382</u>	<u>8,016</u>	<u>282,112</u>
Net assets available for benefits	<u>\$24,676,666</u>	<u>\$1,470,420</u>	<u>\$2,921,124</u>	<u>\$7,841,850</u>	<u>\$562,662</u>	<u>\$414,008</u>	<u>\$37,886,730</u>

The accompanying notes are an integral part of these financial statements.

**ALPHA COMPANY 401(K)
EMPLOYEE SAVINGS PLAN**

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**Statement of Changes in Net Assets Available for Benefits
(With Fund Information)**

For Year Ended December 31, 19X2

	<i>Investment Contract Fund</i>	<i>Income Fund</i>	<i>Growth Fund</i>	<i>Balanced Fund</i>	<i>International Equity Fund</i>	<i>Small- Company Fund</i>	<i>Participant Notes Receivable</i>	<i>Total</i>
ADDITIONS:								
Contributions:								
Participants	\$ 1,225,258	\$ 220,172	\$ 347,268	\$ 559,976	\$ 84,748	\$ 77,734	\$ 0	\$ 2,515,156
Employer	140,958	36,520	60,522	122,260	16,106	10,232	0	386,598
Total contributions	1,366,216	256,692	407,790	682,236	100,854	87,966	0	2,901,754
Investment income:								
Net appreciation in fair value of investments	0	322,724	998,474	2,016,126	49,164	95,316	0	3,481,804
Interest and dividend income	1,500,086	118,858	187,450	605,010	22,452	30,284	0	2,464,140
Total investment income	1,500,086	441,582	1,185,924	2,621,136	71,616	125,600	0	5,945,944
Total additions	2,866,302	698,274	1,593,714	3,303,372	172,470	213,566	0	8,847,698
DEDUCTIONS:								
Benefits paid to participants	3,296,972	235,492	764,674	785,612	45,854	12,872	0	5,141,476
Other expenses	8,340	360	300	1,540	0	0	0	10,540
Total deductions	3,305,312	235,852	764,974	787,152	45,854	12,872	0	5,152,016
LOANS TO PARTICIPANTS	(690,616)	(63,230)	(74,262)	(140,456)	(26,724)	(22,910)	1,018,198	0
LOAN PAYMENTS	71,750	8,360	7,732	16,198	2,470	4,786	(111,296)	0
INTERFUND TRANSFERS	(841,498)	210,158	215,956	329,348	51,956	34,080	0	0
NET (DECREASE) INCREASE	(1,899,374)	617,710	978,166	2,721,310	154,318	216,650	906,902	3,695,682
NET ASSETS AVAILABLE FOR BENEFITS:								
Beginning of year	\$24,676,666	\$1,470,420	\$2,921,124	\$7,841,850	\$562,662	\$414,008	\$ 0	\$37,886,730

(continued)

**ALPHA COMPANY 401(K)
EMPLOYEE SAVINGS PLAN**

**Statement of Net Assets Available for Benefits
(With Fund Information)—continued**

For Year Ended December 31, 19X2

	<i>Investment Contract Fund</i>	<i>Income Fund</i>	<i>Growth Fund</i>	<i>Balanced Fund</i>	<i>International Equity Fund</i>	<i>Small- Company Fund</i>	<i>Participant Notes Receivable</i>	<i>Total</i>
End of year, before transfer of plan assets to Alpha Company profit sharing and 401(k) retirement plan for part-time employees	\$22,777,292	\$2,088,130	\$3,899,290	\$10,563,160	\$716,980	\$630,658	\$906,902	\$41,582,412
Transfer of plan assets to Alpha Company profit sharing and 401(k) retirement plan for part-time employees	(7,592,431)	(696,043)	(1,299,763)	(3,521,053)	(238,993)	(210,219)	(302,302)	(13,860,804)
Net assets available for plan benefits after transfer to Alpha Company profit sharing and 401(k) retirement plan for part-time employees	\$15,184,861	\$1,392,087	\$2,599,527	\$ 7,042,107	\$477,987	\$420,439	\$604,600	\$27,721,608

The accompanying notes are an integral part of these financial statements.

**ALPHA COMPANY 401(K)
EMPLOYEE SAVINGS PLAN**

Notes to Financial Statements and Schedules

December 31, 19X2 and 19X1

1. Description

The following description of the Alpha Company 401(k) Employee Savings Plan (the "Plan") is provided for general information purposes only. More complete information regarding the Plan's provisions may be found in the plan document.

General. The Plan is a defined contribution plan established by the Alpha Company (the "Company") under the provision of Section 401(a) of the Internal Revenue Code ("IRC"), which includes a qualified cash or deferred arrangement as described in section 401(k) of the IRC, for the benefit of eligible employees of the Company. All employees of the Company who have completed one year of service, as defined, are eligible to participate, provided they are at least 21 years of age. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")

Plan Administration. The Plan is administered by the Pension Committee which is appointed by the board of directors of the Company. The Plan's trustee, ABC Bank (the "Trustee"), is responsible for the custody and management of the Plan's assets.

Contributions. Eligible employees can contribute from 1 percent to 8 percent of their compensation as defined by the Plan, subject to certain limitations under the IRC. The Company provides a mandatory matching contribution equal to 50 percent of each participant's contribution up to a maximum of 6 percent of the participant's compensation and an additional contribution, which may be made on a discretionary basis, dependent on the Company's operating results.

Vesting. Participants are fully vested in their contributions and the earnings thereon. Vesting in employer matching contributions and the earnings thereon is based on years of continuous service. A participant vests according to the following schedule:

Less than two years	0%
Two years	25
Three years	50
Four years	75
Five or more years	100

Forfeitures are used to reduce employer matching contributions.

Payment of Benefits. On retirement, death, disability, or termination of service, a participant (or participant's beneficiary in the event of death) may elect to receive a lump-sum distribution equal to the participant's vested account balance. In addition, hardship distributions are permitted if certain criteria are met.

Participant Accounts. Individual accounts are maintained for each of the Plan's participants to reflect the participant's contributions and related employer matching contributions, as well as the participant's share of the Plan's income and any related administrative expenses. Allocations of income and expenses are based on the proportion that each participant's account balance bears to the total of all participant account balances.

Participant Loans. Effective April 15, 19X2, a participant may borrow from his or her account a minimum of \$500 up to a maximum equal to the lesser of \$50,000 or 50 percent of their vested account balance. Loan terms range from one to five years. The loans are secured by the balance in the participant's account and bear interest at a rate of prime plus 1 percent. Interest rates range

from 8 percent to 12 percent principal and interest are paid through payroll deductions. A \$50 loan application fee is charged to the participant's pretax account.

Investment Options. Participants may direct contributions and any related earnings into six investment options in 5 percent increments. Participants may change their investment elections once a day. A description of each investment option is provided below:

Investment Contract Fund—This fund invests in a series of investment contracts issued by highly rated insurance companies, banks, and other issuers and generates a rate of return that blends all of the contracts together.

Income Fund—This fund invests primarily in income-producing common stocks that the fund manager believes possess a potential for growth and maintain a strong dividend history.

Growth Fund—This fund invests in the common stocks of U.S. companies that operate in the service sector of the economy.

Balanced Fund—This fund invests primarily in a combination of bonds and stocks to produce a moderate return in any market condition.

International Equity Fund—This fund invests in overseas securities to produce long-term growth of capital and income.

Small-Company Fund—This fund invests in the common stocks of small companies that the fund manager believes are temporarily undervalued and offer the advantage of greater long-term earning potential.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting. The preparation of the financial statements in conformity with generally accepted accounting principles requires the Plan's management to use estimates and assumptions that affect the accompanying financial statements and disclosures. Actual results could differ from these estimates.

Income Recognition

Interest income is recorded as earned on the accrual basis. Dividend income is recorded on the ex-dividend date.

Investment Valuation

Mutual funds are stated at fair value as determined by quoted market prices, which represents the net asset value of shares held by the plan at year end. The DEF Bank GIC Fund is presented at contract value, which approximates its fair value. Participant notes receivable are valued at cost which approximates fair value.

Net Appreciation (Depreciation in Fair Value of Investments)

Net realized and unrealized appreciation (depreciation) is recorded in the accompanying statement of changes in net assets available for benefits as net appreciation in fair value of investments.

Brokerage fees are added to the acquisition costs of assets purchased and subtracted from the proceeds of assets sold.

Administrative Expenses

Certain expenses incurred in connection with the general administration of the Plan are paid by the Plan and are recorded in the accompanying statement of changes in net assets available for benefits as other expenses.

3. Tax Status

Although the Plan has received a favorable determination letter dated April 30, 19X3 from the Internal Revenue Service, it has not been updated for the latest plan amendments. However, the

plan administrator believes that the Plan is designed and is being operated in compliance with the applicable requirements of the IRC. Therefore, the plan administrator believes that the Plan was qualified and the related trust was tax-exempt for the years ended December 31, 19X2 and 19X1.

4. Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of plan termination, participants will become fully vested in their account balances.

5. Information Certified by the Plan's Trustee

The plan administrator has elected the method of annual reporting compliance permitted by 29 CFR 2520.103-8 of the Department of Labor Rules and Regulations for Reporting and Disclosure under ERISA. Accordingly, the Trustee has certified that the following data included in the accompanying financial statements and supplemental schedules is complete and accurate.

	<i>December 31,</i>	
	<i>19X2</i>	<i>19X1</i>
Investments, at fair value	\$11,844,737	\$29,066,582
Mutual funds	15,096,829	8,538,036
DEF Bank GIC fund	604,600	0
Participant notes receivable	<u>\$27,546,166</u>	<u>\$37,604,618</u>
Total		

	<i>Year ended</i> <i>December 31, 19X2</i>
Investment income:	
Interest and dividends	\$2,464,140
Net appreciation in fair value of investments	<u>3,481,804</u>
Total investment income	<u>\$5,945,944</u>

The Plan's independent accountants did not perform auditing procedures with respect to this information, except for comparing such information to the related information included in the financial statements and supplemental schedules.

6. Reconciliation to Form 5500

As of December 31, 19X2, the Plan had approximately \$10,544 of pending distributions to participants who elected to withdraw from the Plan. This amount is recorded as a liability in the Plan's Form 5500 however, this amount is not recorded as a liability in the accompanying statements of net assets available for benefits in accordance with generally accepted accounting principles.

7. Plan Spin-Off

Effective December 31, 19X2, the participant accounts for the part-time employees-electronic operations of Alpha Company were spun-off to create the Alpha Company Profit Sharing and 401(k) Retirement Plan for part-time employees. As of December 31, 19X2, assets related to the participants of the Alpha Company Profit Sharing and 401(k) Retirement Plan for part-time employees were transferred out of the plan.

SCHEDULE I

**ALPHA COMPANY 401(K)
EMPLOYEE SAVINGS PLAN**

**Item 27a—Schedule of Assets Held For Investment Purposes
December 31, 19X2**

<i>Identify of Issuer, Borrower, Lessor, or Similar Party</i>	<i>Description of Investment, Including Maturity Date, Rate of Interest, Collateral, Par, or Maturity Value</i>	<i>Cost</i>	<i>Current Value</i>
* DEF Bank	DEF Bank GIC Fund (15,096,829 units)	\$15,096,829	\$15,096,829
* ABC Bank	ABC Bank Income Fund (152,345 units)	1,192,357	1,377,304
* ABC Bank	ABC Bank Growth Fund (314,881 units)	1,981,653	2,575,903
* ABC Bank	ABC Bank Balanced Fund (604,941 units)	5,416,241	7,004,561
* ABC Bank	ABC Bank International Equity Fund (55,061 units)	465,457	473,401
* ABC Bank	ABC Bank Small Companies Fund (36,713 units)	372,757	413,568
* Participants	Participant Notes Receivable	604,600	604,600
	Total investments	<u>\$25,129,894</u>	<u>\$27,546,166</u>

* Represents a party in interest.

The accompanying notes are an integral part of this schedule.

The above information has been certified by ABC Bank, the Trustee, as complete and accurate.

SCHEDULE II
ALPHA COMPANY 401(K)
EMPLOYEE SAVINGS PLAN

Item 27d—Schedule of Reportable Transactions^(a)
For the year ended December 31, 19X2

<i>Identity of Party Involved</i>	<i>Description of Asset (include interest rate and maturity in case of a loan)</i>	<i>Purchases</i>		<i>Sales</i>			<i>Net Gain</i>
		<i>Purchase Price</i>	<i>Current Value of Asset on Transaction Date</i>	<i>Selling Price</i>	<i>Cost of Assets</i>	<i>Current Value of Asset on Transaction Date</i>	
* DEF Bank	DEF Bank GIC Fund	\$3,322,380	\$3,322,380	\$5,211,258	\$5,211,258	\$5,211,258	\$ 0
* ABC Bank	ABC Bank Balanced Fund	1,873,588	1,873,588	1,167,124	971,788	1,167,124	195,336
* ABC Bank	ABC Bank Growth Fund	1,110,386	1,110,386	1,127,768	1,023,622	1,127,768	104,146

* Represents a party in interest.

^(a) Represents a single transaction or series of transactions in the same security that exceeds 5% of plan assets at the beginning of the year.

The accompanying notes are an integral part of this schedule.

The above information has been certified by ABC Bank, the Trustee, as complete and accurate.

Profit-Sharing Plan

XYZ COMPANY PROFIT-SHARING PLAN

Statements of Net Assets Available for Benefits

	December 31,	
	19X1	19X0
Assets		
Investments:		
At fair value—(Notes B, C, and E)		
U.S. government securities	\$ 455,000	\$ 425,000
Corporate bonds and debentures	3,900,000	3,730,000
Common stocks	2,822,000	1,931,000
Certificates of deposit	1,000,000	1,000,000
	<u>8,177,000</u>	<u>7,086,000</u>
At contract value—(Note D)		
Investment contract with insurance company	1,000,000	1,000,000
Total investments	<u>9,177,000</u>	<u>8,086,000</u>
Receivables:		
Employer's contribution	14,000	12,000
Participants' contributions	52,000	47,000
Due from broker for securities sold	403,000	357,000
Accrued interest and dividends	77,000	62,000
	<u>546,000</u>	<u>478,000</u>
Cash	280,000	198,000
Total assets	<u>10,003,000</u>	<u>8,762,000</u>
Liabilities		
Accounts payable	10,000	8,000
Accrued expenses	100,000	150,000
Due to broker for securities purchased	75,000	63,000
Total liabilities	<u>185,000</u>	<u>221,000</u>
Net assets available for benefits	<u>\$9,818,000</u>	<u>\$8,541,000</u>

The accompanying notes are an integral part of these financial statements.

XYZ COMPANY PROFIT-SHARING PLAN
Statement of Changes in Net Assets Available for Benefits

	<i>Year Ended December 31, 19X1</i>
Additions to net assets attributed to:	
Investment income:	
Net appreciation in fair value of investments (Note C)	\$ 269,000
Interest	449,000
Dividends	165,000
	<u>883,000</u>
Less investment expenses	(50,000)
	<u>833,000</u>
Contributions:	
Employer's	1,014,000
Participants'	585,000
	<u>1,599,000</u>
Total additions	<u>2,432,000</u>
Deductions from net assets attributed to:	
Benefits paid to participants	1,050,000
Administrative expenses	105,000
Total deductions	<u>1,155,000</u>
Net increase	1,277,000
Net assets available for plan benefits:	
Beginning of year	<u>8,541,000</u>
End of year	<u><u>\$9,818,000</u></u>

The accompanying notes are an integral part of these financial statements.

XYZ COMPANY PROFIT-SHARING PLAN

Notes to Financial Statements

A. Description of Plan

The following description of the XYZ Company ("Company") Profit-Sharing Plan ("Plan") provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

1. **General.** The Plan is a defined contribution plan covering all full-time employees of the Company who have one year of service and are age twenty-one or older. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).
2. **Contributions.** Each year, the Company contributes to the Plan 10 percent of its current profits before pension and profit-sharing costs and income taxes. Additional amounts may be contributed at the option of the Company's board of directors. Participants may contribute up to 10 percent of their annual wages before bonuses and overtime. Contributions are subject to certain limitations.
3. **Participant Accounts.** Each participant's account is credited with the participant's contribution and an allocation of (a) the Company's contribution, (b) Plan earnings, and (c) forfeitures of terminated participants' nonvested accounts and charged with an allocation of administrative expenses. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.
4. **Vesting.** Participants are immediately vested in their voluntary contributions plus actual earnings thereon. Vesting in the Company contributions portion of their accounts plus earnings thereon is based on years of continuous service. A participant is 100 percent vested after five years of credited service.
5. **Payment of Benefits.** On termination of service due to death, disability or retirement, a participant may elect to receive an amount equal to the value of the participant's vested interest in his or her account in either a lump-sum amount, or in annual installments over a ten year period. For termination of service due to other reasons, a participant may receive the value of the vested interest in his or her account as a lump-sum distribution.

B. Summary of Accounting Policies

Basis of Accounting

The financial statements of the Plan are prepared under the accrual method of accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

The Plan's investments are stated at fair value except for its investment contract which is valued at contract value with an insurance company (Note D). If available, quoted market prices are used to value investments. The amounts shown in Note C for securities that have no quoted market price represent estimated fair value. Many factors are considered in arriving at fair value. In

general, however, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock less an appropriate discount. If a quoted market price for unrestricted common stock of the issuer is not available restricted common stocks are valued at a multiple of current earnings less an appropriate discount. The multiple chosen is consistent with multiples of similar companies based on current market prices. Certificates of deposit are valued based on amortized cost or original cost plus accrued interest.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Payment of Benefits

Benefits are recorded when paid.

C. Investments

Except for its investment contract with an insurance company (Note D), the Plan's investments are held in a bank-administered trust fund. The following table presents investments. Investments that represent 5 percent or more of the Plan's net assets are separately identified.

	<i>December 31,</i>	
	<i>19X1</i>	<i>19X0</i>
Investments at Fair Value as Determined by		
Quoted Market Price		
U.S. government securities	\$ 455,000	\$ 425,000
Corporate bonds and debentures:		
National Auto 7%, face value of \$860,000 and		
\$1,000,000, respectively, bonds due 12/31/X5	875,000	1,226,000
Other	2,775,000	2,328,000
Common stocks:		
Bizco Corporation, 100,000 and 90,000 shares,		
respectively	950,000	685,000
Other	1,497,000	981,000
	<u>6,552,000</u>	<u>5,645,000</u>
Investments at Estimated Fair Value		
Certificates of Deposit	1,000,000	1,000,000
Corporate bonds and debentures	250,000	176,000
Common stocks	375,000	265,000
	<u>1,625,000</u>	<u>1,441,000</u>
Investment at Contract Value		
Investment contract with National Insurance		
Company, #2012A, matures 12/31/X2 (Note D)	1,000,000	1,000,000
Total investments	<u>\$9,177,000</u>	<u>\$8,086,000</u>

During 19X1 the Plan's investments (including investments bought, sold, and held during the year) appreciated in value by \$269,000 as follows:

Net Change in Fair Value	
	<i>Year Ended December 31, 19X1</i>
Investments at Fair Value as Determined by Quoted Market Price	
U.S. government securities	\$ (15,000)
Corporate bonds and debentures	(175,000)
Common stocks	<u>439,000</u>
Net change in fair value	<u>249,000</u>
Investments at Estimated Fair Value	
Corporate bonds and debentures	(5,000)
Common stocks	<u>25,000</u>
	<u>20,000</u>
Net change in fair value	<u><u>\$269,000</u></u>

D. Investment Contract With Insurance Company

In 19X0, the Plan entered into an investment contract with National Insurance Company (National). National maintains the contributions in a pooled account. The account is credited with earnings on the underlying investments and charged for Plan withdrawals and administrative expenses charged by National. The contract is included in the financial statements at contract value, (which represents contributions made under the contract, plus earnings, less withdrawals and administrative expenses) because it is fully benefit responsive. For example, participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value. There are no reserves against contract value for credit risk of the contract issuer or otherwise. The fair value of the investment contract at December 31, 19X1 and 19X0 was \$1,082,000 and \$1,040,000, respectively. The average yield and crediting interest rates were approximately five percent for 19X1 and 19X0. The crediting interest rate is based on an agreed-upon formula with the issuer, but cannot be less than zero.

E. Certificates of Deposit

Certificates of deposit at December 31, 19X1 and 19X0 consist of amounts on deposit at banks or savings and loan associations, with interest rates ranging from 5.4 percent to 9.1 percent, with maturities of three months or less. These deposits include \$400,000 and \$500,000 which are in excess of federally insured limits at December 31, 19X1 and 19X0, respectively.

F. Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become 100 percent vested in their accounts.

G. Tax Status

The Internal Revenue Service has determined and informed the Company by letter dated August 30, 19XX, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code (IRC). The Plan has been amended since receiving the determination letter. However, the Plan administrator and the Plan's tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable provisions of the IRC.

Independent Auditor's Report

To the Pension Committee
of the ABC Company Profit-Sharing Plan:

We have audited the accompanying statements of net assets available for benefits of ABC Company Profit-Sharing Plan (the Plan) as of December 31, 19X2 and 19X1, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 19X2 and 19X1, and the changes in its net assets available for benefits for the years then ended, in conformity with generally accepted accounting principles.

[Signature of Firm]

[City and State]

[Date]

ABC COMPANY PROFIT SHARING PLAN
Statements of Net Assets Available for Benefits
(In thousands)

	<i>December 31,</i>	
	<u>19X2</u>	<u>19X1</u>
Assets		
Investment in master trust	\$3,568,966	\$2,885,456
Loans to participants	<u>189,314</u>	<u>181,056</u>
	<u>3,758,280</u>	<u>3,066,512</u>
Receivables		
Contributions from ABC Company	156,000	156,354
Other	2,966	2,672
Interest and dividends	<u>2,222</u>	<u>1,758</u>
Net assets available for benefits	<u><u>\$3,919,468</u></u>	<u><u>\$3,227,296</u></u>

The accompanying notes are an integral part of these financial statements.

ABC COMPANY PROFIT SHARING PLAN
Statements of Changes in Net Assets Available for Benefits
Years Ended December 31, 19X2 and 19X1

(In thousands)

	<i>December 31,</i> <u>19X2</u>	<u>19X1</u>
Additions		
Contributions		
Participants	\$ 165,704	\$ 158,792
ABC Company	156,000	156,354
Forfeitures	<u>3,802</u>	<u>4,446</u>
Total contributions	<u>325,506</u>	<u>319,592</u>
Income from investment in master trust	<u>605,204</u>	<u>50,640</u>
Deductions		
Withdrawals	227,202	220,606
Administrative fees	<u>3,118</u>	<u>3,564</u>
Total deductions	<u>230,320</u>	<u>224,170</u>
Net additions	<u>700,390</u>	<u>146,062</u>
Net assets available for benefits at beginning of year	3,227,296	3,223,610
Transfer to other plans	(8,218)	(142,376)
Net assets available for benefits at end of year	<u><u>\$3,919,468</u></u>	<u><u>\$3,227,296</u></u>

The accompanying notes are an integral part of these financial statements.

ABC Company Profit-Sharing Plan
Notes to Financial Statements

A. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting.

Investment in Master Trust

The Investment in the Master Trust Fund is stated at fair value. The majority of investment values are ascertained from national security exchanges. ABC Company Common Stock, which is traded on national securities exchanges, and other equity securities, are valued within the Master Trust Fund at the last reported sales price on the last business day of the Plan year. All government and corporate debentures are valued at the last reported sales price on the last business day of the Plan year on a national security exchange plus any accrued interest within the Master Trust Fund. If there are no such sales or listings on a national security exchange, alternative sources are used. Loans to participants are stated at cost which approximates fair value.

Withdrawals and Exchanges

Withdrawals and exchanges between investment fund options by participants are recorded based upon the specific proceeds and cost of the investment at the date of withdrawal or exchange.

Reclassification of Prior Year Information

Certain prior year information has been reclassified to conform with current year presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

B. Description of Plan

ABC Company Profit-Sharing Plan (the Plan) was authorized by the Board of Directors of ABC Company and was effective January 1, 19XX for the benefit of certain employees of ABC Company and its subsidiaries (the Company). The Plan is a defined contribution profit-sharing plan maintained primarily for the purpose of providing retirement income for participants and is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Prior to July 19X2, employees become eligible to participate in the Plan upon completion of two years of service or, if the employee is 21 years of age or older, upon the completion of one year of service. Effective July 1, 19X2, employees become eligible to participate in the Plan upon completion of one year of service regardless of age. This eligibility change in the Plan did not have a material effect. Employees represented by labor organizations are not eligible to participate in the Plan unless the Company and the labor organization specifically agree to the contrary.

Plan participants may make personal deposits to the Plan on either or both a tax deferred and an after-tax basis. Company contributions to the Plan are set each year at the discretion of the Company's Board of Directors for the prior Plan year and are irrevocable. The Company contributions and forfeitures are first used to restore the previously forfeited accounts of rehired participants pursuant to Plan provisions. The remainder of such contributions and forfeitures are then allocated to Plan participants, as described below: one third is allocated among participants

who made personal deposits to the Plan, pro rata, based upon the amounts of their deposits of up to 6 percent of compensation. Two thirds are allocated among participants as follows: (i) each participant who has received compensation in excess of the Social Security wage base for the year is allocated an amount equal to such excess times the maximum amount allowable under Code Section 401(l); and (ii) any amount remaining is allocated among all participants in proportion to the total compensation of each for the year. Allocations to collective bargaining unit employees are offset by obligations of the Company to contribute to a collective bargaining unit plan. A participant's 19X2 compensation in excess of \$140,000 (adjusted periodically) is excluded in determining the amount of Company contribution and forfeitures allocated to the participant.

Company contributions made on behalf of participants that are not based upon deposits made by such participants vest on a graduated schedule. For all participants who perform at least one hour of service in any year beginning on or after January 1, 19XX, the schedule commences with 25 percent at three years of service and increases annually to full vesting at five years of service. Personal deposits of participants and Company contribution allocations based upon personal deposits of participants fully vest immediately.

The Plan presently maintains **four** investment fund options within the Master Trust in which participants may invest. The investment fund options are as follows: (i) Company Stock Fund—consisting solely of ABC Company Common Stock; (ii) Corporate Bond Fund—consisting solely of investments in corporate bonds; (iii) Debt Fund—consisting solely of investments in debt instruments; (iv) U.S. Government Securities Fund—invests 100 percent in U.S. Government securities.

Participants may apportion their deposits between more than one investment fund option and can change their current deposit investment mix as often as desired. Existing participant account balances can be exchanged between investment fund options once per day.

Each participant's share of the Company contribution and forfeitures is automatically invested according to their current deposit investment mix.

Participants not making personal deposits may specify an investment option for the Company contribution. If a specification is not made, the Company contribution will be invested in the Company Stock Fund.

Usual and customary investment manager fees, trustee fees, and all outside administrative costs are paid by the Plan.

Upon separation from service, participants can elect to withdraw balances either in a lump sum or in installments, or the balances can be left in the Plan. Individuals who transferred amounts to the Plan which are attributable to the former ABC Company Retirement Plan may receive their entire Plan account balance as a deferred annuity. Active employees may withdraw after-tax personal deposits at any time, but may only withdraw tax deferred personal deposits upon the occurrence of an extreme financial hardship. Participants may also obtain loans from the Plan within certain limits.

C. Investments in Master Trust

The Plan's assets are held by Responsible Trust Company, the Trustee of the Plan, which executes all transactions therein under the direction of the Benefit Plans Committee. The assets are held in a Master Trust, commingled with assets of the Company's other benefit plans. The Company's benefit plans participating in the Master Trust collectively own, through the Master Trust, the assets based upon investment percentages. Participant transaction activity is designated to specific plans. Accordingly, each plan's investment percentage in the Master Trust changes regularly. Income earned by the Master Trust is allocated to the various plans based upon the investment percentage on the day the income is earned. At December 31, 19X2 and 19X1, the plan's interest in the master trust was approximately 57 percent and 54 percent, respectively.

The following table presents the fair values of investments for the Master Trust and the Plan's percentage interest in each investment:

	December 31,			
	19X2		19X1	
Company Stock Fund	1,008,746	7%	744,877	7%
Corporate Bond Fund	854,772	8%	803,191	8%
Debt Fund	3,921,062	35%	3,287,780	33%
U.S. Government Securities Fund	551,762	7%	665,458	6%
	<u>\$6,336,342</u>		<u>\$5,501,306</u>	

Investment income for the master trust is as follows:

	December 31,			
	19X2		19X1	
Net appreciation (depreciation) in fair value of investments:				
Company Stock Fund	\$ 24,712	7%	\$ 9,086	7%
Corporate Bond Fund	114,423	8%	(199,053)	8%
Debt Fund	707,501	35%	(123,446)	33%
U.S. Government Securities Fund	114,904	7%	15,023	6%
Total	<u>961,540</u>		<u>(298,390)</u>	
Interest:				
Corporate Bond Fund	3,808	8%	3,205	8%
Debt Fund	3,360	35%	2,828	33%
U.S. Government Securities Fund	15,234	7%	12,819	6%
Total	<u>22,402</u>		<u>18,852</u>	
Dividends From Company Stock Fund	30,060	7%	22,300	7%
Total	<u>\$1,014,002</u>		<u>\$(257,238)</u>	

D. Asset Transfers

The Twinkle division was sold during 19X1. Plan assets totaling \$142,376,936 for those participants continuing employment with Twinkle were transferred to Twinkle Retirement Plan in 19X1. The 19X1 Company contribution attributable to those participants totaling \$8,218,054 was transferred to the Twinkle Retirement Plan in 19X2, shortly following payment of the contribution in March 19X2. Twinkle is not administered by or affiliated with ABC Company.

E. Financial Instruments

Note: This note will be updated to reflect the provisions of SFAS 133 closer to the Statement's effective date.

Certain Plan investment managers invest in derivative foreign exchange forward contracts for purposes of hedging or moderating the currency risks associated with holding investments denominated in foreign currencies. Foreign exchange forward contracts represent agreements to exchange the currency of one country for the currency of another country at an agreed-upon price, on an agreed-upon settlement date. Contracts are generally taken for periods ranging from 30 to 90 days, then renewed, generally, if the Plan continues to hold the underlying foreign investment. Each investment manager's usage of such derivative financial instruments is limited by the Plan's contractual investment guidelines which prohibit the speculative or leveraged use of derivatives.

Foreign exchange forward contracts are stated at fair value in the Statements of Net Assets Available for Benefits, which represents the amounts that the Plan would be required to pay, at December 31, 19X2, to cancel the contracts or transfer them to other parties.

The notional or contract amounts of foreign exchange forward contracts are not recorded as assets or liabilities on the Statements of Net Assets Available for Benefits and do not represent the potential gain or loss associated with such transactions.

At December 31, 19X2, the Plan had the following open foreign exchange forward contracts (In thousands of dollars):

Forward Contracts to Sell Foreign Currencies and Buy US Dollars:

	<u>Notional Amount</u>	<u>Fair Value</u>
Corporate Bond Fund	\$ 97,402	\$ (38)
Debt Fund	191,982	192
	<u>\$289,384</u>	<u>\$154</u>

Forward Contracts to Buy Foreign Currencies and Sell US Dollars:

	<u>Notional Amount</u>	<u>Fair Value</u>
Corporate Bond Fund	\$ 65,190	\$(250)
Debt Fund	124,582	(524)
	<u>\$189,772</u>	<u>\$(774)</u>

Credit risk represents the Plan's potential loss on foreign exchange forward contracts if all counterparties to such contracts fail to perform according to the terms of the contract. Credit risk is calculated using year-end currency exchange rates. Historically, there have not been any losses associated with counterparty non-performance on foreign exchange forward contracts. Exposure to loss on these contracts will increase or decrease over the lives of the contracts as currency exchange rates fluctuate.

At December 31, 19X2, credit risk related to these contracts was as follows (In thousands of dollars):

Corporate Bond Fund	\$ 498
Debt Fund	1,170
	<u>\$1,668</u>

F. Income Tax Status

The Internal Revenue Service ruled on May 15, 19X2 that the Plan qualifies under Section 401(a) of the Internal Revenue Code (IRC) and, therefore, the underlying trust is not subject to tax under IRC Section 501(a). Once qualified, the Plan is required to operate in conformity with the IRC to maintain its qualification. The Plan Administrator is not aware of any course of action or series of events that have occurred that might adversely affect the Plan's qualified status.

G. Plan Termination

Although it has not expressed any interest to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become fully vested in their accounts.

H. Transactions With Parties-in-interest

During 19X2 and 19X1, the ABC Company Stock Fund received \$8,441,804 and \$6,124,664, respectively, in common stock dividends from ABC Company.

I. Subsequent Event

ABC Company is plan sponsor for XYZRP (XYZ Company Retirement Plan), a frozen retirement plan which is maintained for members of XYZRP who had balances in the plan when ABC Com-

pany merged with XYZ Company, Inc. in 19W0. The Plan was established January 1, 19W1 and since that time no employee or employer contributions have been made to XYZRP for plan years subsequent to 19W0. Of the approximately 28,600 XYZRP participants, over 24,000 also have Plan accounts. Recently, members of XYZRP were balloted to determine their desire to merge XYZRP with the Plan. The voting effort was completed June 15, 19X3 with a large majority of XYZRP members voting in favor of the merger. Based on that outcome, XYZRP will be merged into the Plan effective August 31, 19X3. As of July 15, 19X3, XYZRP assets are approximately \$2.6 billion. Plan features will not change as a result of the merger.

Employee Stock Ownership Plan
SPONSOR COMPANY STOCK OWNERSHIP PLAN
Statements of Net Assets Available for Benefits*

	<i>December 31,</i>					
	19X2			19X1		
	<i>Allocated</i>	<i>Unallocated</i>	<i>Total</i>	<i>Allocated</i>	<i>Unallocated</i>	<i>Total</i>
Assets:						
Investment in sponsor company common stock, at fair value	\$34,890,000	\$57,430,000	\$ 92,320,000	\$24,568,000	\$ 47,015,000	\$71,583,000
Receivables:						
Employer contributions	—	8,607,000	8,607,000	—	7,062,000	7,062,000
Dividends and interest	570,000	459,000	1,029,000	280,000	3,000	283,000
Cash and cash equivalents	156,000	863,000	1,019,000	101,000	448,000	549,000
Total assets	<u>\$35,616,000</u>	<u>\$67,359,000</u>	<u>\$102,975,000</u>	<u>\$24,949,000</u>	<u>\$ 54,528,000</u>	<u>\$79,477,000</u>
Liabilities:						
Interest payable	—	1,396,000	1,396,000	—	1,033,000	1,033,000
Loan payable	—	73,970,000	73,970,000	—	80,000,000	80,000,000
Total liabilities	<u>—</u>	<u>75,366,000</u>	<u>75,366,000</u>	<u>—</u>	<u>81,033,000</u>	<u>81,033,000</u>
Net assets available (deficit) for plan benefits	<u>\$35,616,000</u>	<u>\$(8,007,000)</u>	<u>\$ 27,609,000</u>	<u>\$24,949,000</u>	<u>\$(26,505,000)</u>	<u>\$ (1,556,000)</u>

The accompanying notes are an integral part of these financial statements.

* The columns reflected in the example are appropriate for the presentation of a leveraged ESOP. For a non-leveraged ESOP, the presentation would reflect only the total column without the segregation between allocated and unallocated.

Allocated and unallocated designations distinguish between assets that belong to plan participants and those that are still available as collateral for the ESOP loan. Under ERISA, the lender has access to the securities held by the plan, that represent unallocated employer contributions to service the debt, and any earnings on those amounts. Earnings on temporary cash investments also are available to the lender.

An accrued employer contribution for current or future debt service is, therefore, reflected on the Statement of Net Assets Available for Benefits and the Statement of Changes in Net Assets Available for Benefits in the Unallocated column. In contrast, an employer contribution accrued to fund distributions to terminated participants is reflected in the Allocated column.

This distinction is *not* reflected in the participant account balances when reporting to the participant under ERISA. Contributions accrued for future debt service are allocated to the accounts of plan participants.

SPONSOR COMPANY STOCK OWNERSHIP PLAN

Statement of Changes in Net Assets

Available for Benefits

	<i>December 31, 19X2</i>		
	<i>Allocated</i>	<i>Unallocated</i>	<i>Total</i>
Investment income			
Net unrealized appreciation in market value of investments	\$ 9,205,000	\$15,052,000	\$24,257,000
Interest	31,000	58,000	89,000
Dividends	1,380,000	2,184,000	3,564,000
Employer contributions	—	11,524,000	11,524,000
Allocation of 142,000 shares of common stock of Sponsor Company, at market	4,637,000	—	4,637,000
	<u>15,253,000</u>	<u>28,818,000</u>	<u>44,071,000</u>
Interest expense	—	5,683,000	5,683,000
Distributions to participants	4,586,000	—	4,586,000
Allocation of 142,000 shares of common stock of Sponsor Company, at market	—	4,637,000	4,637,000
Total deductions	<u>4,586,000</u>	<u>10,320,000</u>	<u>14,906,000</u>
Net increase	10,667,000	18,498,000	29,165,000
Net assets (deficit) available for benefits:			
Beginning of year	<u>24,949,000</u>	<u>(26,505,000)</u>	<u>(1,556,000)</u>
End of year	<u>\$35,616,000</u>	<u>\$ (8,007,000)</u>	<u>\$27,609,000</u>

The accompanying notes are an integral part of these financial statements.

SPONSOR COMPANY STOCK OWNERSHIP PLAN

Notes to Financial Statements

December 31, 19X2

1. Plan Description and Basis of Presentation

The Sponsor Company (Company) established the Sponsor Company Stock Ownership Plan (Plan) effective as of January 1, 19XX. As of January 1, 19XY, the Plan was amended and operates, in relevant part, as a leveraged employee stock ownership plan (ESOP), and is designed to comply with Section 4975(e)(7) and the regulations thereunder of the Internal Revenue Code of 1986, as amended (Code) and is subject to the applicable provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). The Plan is administered by an Employee Benefits Administration Committee comprising up to three persons appointed by the Sponsor Company's Board of Directors. The trust department of an independent third-party bank is the Plan's Trustee.

The Plan purchased Company common shares using the proceeds of a bank borrowing (see Note 6) guaranteed by the Company, and holds the stock in a trust established under the Plan. The borrowing is to be repaid over a period of ten years by fully deductible Company contributions to the trust fund. As the Plan makes each payment of principal, an appropriate percentage of stock will be allocated to eligible employees' accounts in accordance with applicable regulations under the Code. Shares vest fully upon allocation.

The borrowing is collateralized by the unallocated shares of stock and is guaranteed by the Company. The lender has no rights against shares once they are allocated under the ESOP. Accordingly, the financial statements of the Plan for the years 19X2 and 19X1 present separately the assets and liabilities and changes therein pertaining to:

- (a) the accounts of employees with vested rights in allocated stock (Allocated) and
- (b) stock not yet allocated to employees (Unallocated).

Employees of the Company and its participating subsidiaries are generally eligible to participate in the Plan after one year of service providing they worked at least 1,000 hours during such plan year. Participants who do not have at least 1,000 hours of service during such plan year or are not employed on the last working day of a plan year are generally not eligible for an allocation of Company contributions for such year.

No distributions from the Plan will be made until a participant retires, dies (in which case, payment shall be made to his or her beneficiary or, if none, his or her legal representatives), or otherwise terminates employment with the Company and its participating subsidiaries. Distributions are made in cash or, if a participant elects, in the form of Company common shares plus cash for any fractional share.

Each participant is entitled to exercise voting rights attributable to the shares allocated to his or her account and is notified by the Trustee prior to the time that such rights are to be exercised. The Trustee is not permitted to vote any share for which instructions have not been given by a participant.

The Company reserves the right to terminate the Plan at any time, subject to Plan provisions. Upon such termination of the Plan, the interest of each participant in the trust fund will be distributed to such participant or his or her beneficiary at the time prescribed by the Plan terms and the Code. Upon termination of the Plan, the Employee Benefits Administration Committee shall direct the Trustee to pay all liabilities and expenses of the trust fund and to sell shares of financed stock held in the loan suspense account to the extent it determines such sale to be necessary in order to repay the loan.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets, liabilities, and changes therein. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

The common shares of the Company are valued at fair value on December 31, 19X2 and 19X1. Fair value is determined by annual independent appraisals.

Dividend income is accrued on the ex-dividend date.

Purchases and sales of securities are recorded on a trade-date basis. Realized gains and losses from security transactions are reported on the average cost method.

3. Tax Status

The Internal Revenue Service has determined and informed the Company by a letter dated June 30, 19XX, that the Plan is qualified and the trust established under the Plan is tax-exempt, under the appropriate sections of the Code. The Plan has been amended since receiving the determination letter. However, the Plan administrator and the Plan's tax counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the Code. Therefore, they believe that the Plan was qualified and the related trust was tax-exempt as of the financial statement date.

4. Administration of Plan Assets

The Plan's assets, which consist principally of Sponsor Company common shares, are held by the Trustee of the Plan.

Company contributions are held and managed by the Trustee, which invests cash received, interest, and dividend income and makes distributions to participants. The Trustee also administers the payment of interest and principal on the loan, which is reimbursed to the Trustee through contributions as determined by the Company.

Certain administrative functions are performed by officers or employees of the Company or its subsidiaries. No such officer or employee receives compensation from the Plan. Administrative expenses for the Trustee's fees are paid directly by the Company.

5. Investments

The Plan's investments, at December 31, are presented in the following table:

	19X2		19X1	
	<i>Allocated</i>	<i>Unallocated</i>	<i>Allocated</i>	<i>Unallocated</i>
Sponsor Company Common Shares:				
Number of Shares	<u>1,069,000</u>	<u>1,759,000</u>	<u>1,074,000</u>	<u>2,055,000</u>
Cost	<u>\$27,014,000</u>	<u>\$74,456,000</u>	<u>\$29,910,000</u>	<u>\$80,000,000</u>
Market	<u>\$34,890,000</u>	<u>\$57,430,000</u>	<u>\$24,568,000</u>	<u>\$47,015,000</u>

6. Loan Payable

In 19XX, the Plan entered into an \$80,000,000 term loan agreement with a bank. The proceeds of the loan were used to purchase Company's common stock. Unallocated shares are collateral for

the loan. The agreement provides for the loan to be repaid over ten years. The scheduled amortization of the loan for the next five years and thereafter is as follows: 19X3—\$6,500,000; 19X4—\$7,000,000; 19X5—\$7,500,000; 19X6—\$8,000,000; 19X7—\$8,500,000; and thereafter—\$31,470,900. The loan bears interest at the prime rate of the lender. For 19X2 and 19X1 the loan interest rate averaged 7.34 percent and 5.12 percent, respectively.

7. Employer Contributions

The Company is obligated to make contributions in cash to the Plan which, when aggregated with the Plan's dividends and interest earnings, equal the amount necessary to enable the Plan to make its regularly scheduled payments of principal and interest due on its term loan.

Comment Letter

We welcome any comments and suggestions you have regarding this Checklist. Please send this completed form to: AICPA, Accounting and Auditing Publications, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ, 07311-3881. Thank you.

Checklist Title: _____

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